House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ▪ Ranking Democratic Member

February 11, 2000

Dear Democratic Colleague:

Attached is a copy of ***A Summary of President Clinton's Fiscal Year 2001 Budget***. This report, which was written by the Democratic staff of the House Budget Committee, is a follow-up to the preliminary report I sent you on February 8 and slightly revises a few figures included in the Summary distributed February 11.

When surpluses started appearing in our budget projections two years ago, the President insisted that they not be tapped until we "save Social Security first." His budget for 2001 follows up that commitment and extends the solvency of Social Security to 2054 and Medicare to 2025. It also closes a gaping omission in Medicare coverage by providing for a prescription drug benefit. His budget continues his strong commitment to education by providing for smaller classes in the primary grades and tax subsidies for school construction. It requests a $1.4 billion increase for veterans' health care and a $12 billion increase in defense funding. In addition, his budget provides for other tax cuts, including proposals to help the middle class by mitigating the impact of the marriage penalty and the alternative minimum tax. At the same time, the budget saves 100 percent of the Social Security surplus and dedicates an additional $350 billion over the next ten years for debt reduction and Medicare solvency.

We have come a long way since 1992 when the deficit was $290 billion and heading up. Thanks to the fiscal policies of the Clinton Administration and the work of Congressional Democrats, we balanced the unified budget in 1998, and in 1999 we achieved a budget surplus even without the Social Security surplus. But serious challenges lie ahead. Social Security and Medicare face funding shortfalls that appear just over the horizon of the ten-year projections. To its credit, the Clinton budget uses the vast bulk of the surplus to pay down the debt, thereby making available the resources needed to extend the solvency of both Social Security and Medicare.

The President's initiatives, along with his commitment to Social Security and Medicare, make this a popular budget, but I should raise a word of caution. His initiatives are funded in part by user fees, a 25-cent increase in the tobacco tax, other revenue increases, and Medicare savings. If Congress fails to approve these offsets, the initiatives will be harder to fund unless we find other ways to pay for them.

Republican leaders have declared that they plan to move quickly this year and pass a budget resolution conference report before the April 15 deadline. But a long road and a lot of work lie ahead before final passage of the budget resolution. As the Budget Committee works on the budget, I welcome your advice and suggestions. In the meantime, the Democratic staff of the Committee is a resource for our entire Caucus, and I hope you will feel free to call me or have your staff call the Budget Committee staff with any questions or suggestions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

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February 11, 2000

Summary of President Clinton's Fiscal Year 2001 Budget

JOHN M. SPRATT, JR.
RANKING MEMBER

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

- All years are fiscal years unless otherwise noted.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- All figures are OMB estimates.
- Numbers may not add due to rounding.
- Funding levels for 2000 include emergency funding unless otherwise noted.

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Overview of President Clinton's FY 2001 Budget

President Clinton's budget for 2001 includes a large number of policy initiatives, both as tax cuts and tax credits targeted to specific purposes, and as program increases. Three areas — health care coverage and benefits, economic support for working families, and support for education — dominate the initiatives. Yet despite the depth and breadth of the initiatives, an integral part of this budget is debt reduction. The budget —

- devotes 86 percent, or $2.5 trillion, of the projected $2.9 trillion surplus to debt reduction;
- reserves 100 percent of the Social Security surplus, thereby reducing the debt $2.2 trillion;
- pays off the entire publicly held debt by 2013;
- provides additional solvency-enhancing assets to Medicare and, after 2010, additional solvency-enhancing assets to Social Security, both from the surplus *excluding* Social Security;
- offsets some of the tax initiatives and program improvements; and
- increases both defense and nondefense appropriations slightly above inflation in the short run, but the total is slightly below over the long run.

Reducing the Debt by $2.5 Trillion

If the President had proposed *no* changes in tax and budget policy, the government would have run $2.9 trillion of surpluses over the next ten years. Surpluses are necessarily used to repay debt held by the public, so the "no-change" (or "current policy baseline") surplus of $2.9 trillion would have produced $2.9 trillion of debt reduction. Instead, the President proposes tax cuts and program increases that use up $0.4 trillion of the projected baseline surplus over ten years — the result is that his budget uses 86 percent, or $2.5 trillion, of the baseline ten-year surplus for debt reduction. This is shown in Table 1 below, and in more detail in Table 4 below.

Table 1: What Happens to the Baseline Surplus — Debt Reduction and Policy Changes
ten-year totals, 2001-2010, in trillions of dollars

	Unified Budget	Social Security	"On-Budget"*
Baseline Surpluses**	2.9	2.2	0.7
President's Policy Proposals	-0.4	0.0	-0.4
Result: President's Surpluses	2.5	2.2	0.3

** "On-budget" amounts exclude Social Security and the Postal Service Fund*
*** assumes funding for appropriated programs grow only with inflation*

Budget Totals

For the coming year, 2001, the budget includes revenues of $2,021 billion, outlays of $1,837 billion, and a surplus of $184 billion. This surplus grows over time, totaling $965 billion over five years and $2.5 trillion over ten. The 2001 surplus is unusually large by historical standards: as a share of Gross Domestic Product (GDP), the surplus of 1.8 percent is the largest since 1951.

Table 2. President Clinton's Budget for 2001
in billions of dollars

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*5-yr total*	*10-yr total*
Revenues	1,956	2,021	2,083	2,149	2,238	2,343	10,833	24,219
Outlays	1,790	1,837	1,897	1,965	2,043	2,127	9,868	21,700
Surpluses*	167	184	186	185	195	215	965	2,519

Note: may not add due to rounding
** necessarily used for debt reduction*

- ***The Social Security Surplus and the Rest of the Budget*** — Both the Social Security trust fund and the remainder of the budget are in surplus, as shown in Table 3. The budget excluding Social Security is estimated to be in surplus in 2000, as it was in 1999 but as it had not previously been since 1960.

Table 3. Surpluses in Social Security and in the Rest of the Budget
in billions of dollars

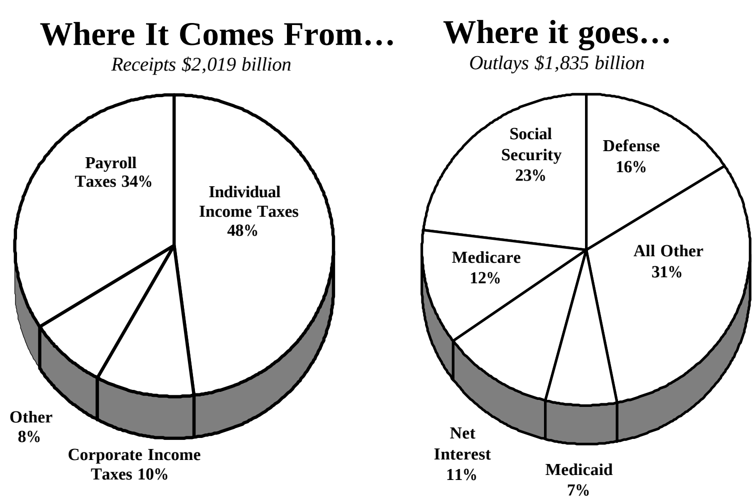
	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*5-yr total*	*10-yr total*
Social Security*	148	160	172	184	195	214	924	2,169
Rest of Budget	19	24	14	0	0	2	41	350
Total Surpluses**	167	184	186	185	195	215	965	2,519

Note: may not add due to rounding
** Social Security is designated by law as an "off-budget" agency, as is the Postal Service. The figures on this line show the total off-budget amounts in the President's budget, for convenience; the inclusion of the Postal Service makes almost no difference to these figures.*
*** necessarily used for debt reduction*

- ***The Budget Shrinks as a Share of the Economy*** — Both revenues and outlays are expected to shrink as a share of GDP. At 18.7 percent, federal outlays are already the smallest as a share of the economy since 1974. Outlays have been falling since 1992, and will continue to fall each year to 16.7 percent of GDP in 2010, notwithstanding the increases in health insurance benefits and coverage in the budget. Outlays of 16.7 percent of GDP will be the smallest percentage since 1956.

- ***Where Does the Money Come From? Where Does it Go?*** — For 2001, most federal revenue comes from individual income taxes and from payroll taxes dedicated to Social Security and Medicare. The government administers many programs, but five large ones — Social Security, Medicare, Medicaid, Defense, and Interest — make up 69 percent of the 2001 budget. (See the pie charts.)

As noted, the 2001 budget shows a surplus of $184 billion. That surplus is used to buy back debt held by the public, reducing the total outstanding amount the Treasury owes to private entities including investors, pension funds, banks, and foreign countries. Buying back debt is the automatic and necessary result of running a unified budget surplus.



How the Budget Changes Current Policy

Both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) project policy-neutral baselines, which serve as a benchmark to measure how the President's budget changes existing budget policy. In those baselines, revenue and entitlement laws continue as written.[1] Appropriated programs, which are funded annually by Congress, continue at the same *constant dollar* level of funding; they provide zero *real* growth because they grow only enough to cover inflation. (CBO also prepared two alternative projections of appropriated programs. In one, funding is assumed to be frozen in nominal terms for a decade, while in the other, funding is assumed to drop to the levels specified by the "discretionary caps" for 2001 and 2002. As discussed in *Appropriated Programs*, the only realistic baseline is the one that holds appropriated funding at zero real growth.)

Table 4. What Happens to the Baseline Surplus of $2.9 Trillion
in billions of dollars

	2001	***2002***	***2003***	***2004***	***2005***	***5-yr total***	***10-yr total***
Unified Baseline Surplus*	**171**	**197**	**193**	**213**	**247**	**1,022**	**2,919**
- Net Program Increases	-6	-7	-8	-12	-18	-51	-175
- Net Tax Cuts & Credits	+9	+1	-5	-4	-12	-10	-171
- Debt Service Costs	0	0	-1	-1	-3	-6	-65
Total Policy Changes	**+3**	**-7**	**-13**	**-18**	**-32**	**-67**	**-410**
- Repeal Outlay Delays	+10	-4	+4			+10	+10
Resulting Surplus (debt reduction), earmarked:	**184**	**186**	**185**	**195**	**215**	**965**	**2,519**
- Social Security fund	160	172	184	195	214	924	2,169
- Medicare fund	15	13	0	0	0	28	299
- Catastrophic drug	--	--	--	--	--	--	35
- Unspecified	9	1	0	0	2	13	16

Note: may not add due to rounding
** assumes funding for appropriated programs grow only with inflation*

Table 4 shows that, compared with the OMB baseline, the President's budget includes policies to increase the 2001 surplus by $3 billion but reduce the ten-year surplus by $410 billion, from $2.9 trillion to $2.5 trillion. Of the $2.9 trillion baseline surplus, the budget uses —

[1] There are two technical exceptions to the "current law" rule. Existing trust fund excise taxes that are scheduled to expire periodically are instead projected to be reauthorized without change. An example is the gasoline tax. Likewise, major entitlement programs that are scheduled to expire periodically, such as food stamps, are instead projected to be reauthorized without change.

- $175 billion or 6.0 percent for net program increases, largely health benefits and coverage;
- $171 billion or 5.8 percent for net tax cuts and new or increased refundable tax credits; and
- $65 billion or 2.2 percent for debt service costs.

The Budgetary Treatment of Refundable Tax Credits

The budget includes $85.4 billion over ten years to create new refundable tax credits or expand existing ones. In Table 4, these amounts are included in the entry for "Net Tax Cuts & Credits."

Dependant Care Tax Credit	$30.3 billion
Long-term Care & Workers with Disabilities	$28.3
Earned Income Tax Credit	$23.6
Electronic Filing Tax Credit	$ 3.3
TOTAL	$85.4

Refundable tax credits reduce taxpayers' income tax liabilities, and they can receive the full credit even if their tax liabilities are reduced below zero. In effect, the credit can be a negative income tax. Are such proposals tax cuts or spending increases? There is no perfect answer to this question, but by convention the reduction of liability towards zero is called a tax reduction, while the amount that tax liability is reduced *below* zero is called a program increase. Using this convention, the $85.4 billion in refundable tax credits provides a $48.1 billion tax cut and a $37.3 billion program increase. As noted, Table 4 combines the full $85.4 billion of new or increased tax credits with all other net tax cuts. The budget, and the revenue and outlay totals in this document, follow the standard convention, so that the net tax credit / cut of $171 billion shown in Table 4 and in *Revenues* is reduced to $133 billion and the net program initiatives shown in Table 4 are increased to $212 billion.

Note: Through a computer error, the budget inadvertently shows the ten-year $85.4 billion in refundable tax credits as a $65.3 tax cut and a $20.1 program increase. Since the total is correct, the surplus and debt totals in the budget are correct. However, the budget's revenue totals and Function 600 mandatory program totals are each understated by $17.2 billion over ten years. This document corrects that error.

The remaining $2.5 trillion, or 86.3 percent of the baseline surplus, is used for debt reduction. That debt reduction is earmarked as follows:

- $2,169 billion or 74.3 percent of the $2.9 trillion baseline surplus (and 100 percent of the Social Security surplus) for the Social Security trust fund;
- $299 billion or 10.2 percent for the Medicare Part A (Hospital

Repealing Outlay Delays

The budget repeals $10 billion in previously enacted outlay delays that had shifted costs from 2000 to 2001, restoring the normal timing. Relative to existing law, this repeal appears as a 2001 "savings" and a 2000 "cost." The budget also repeals previously enacted outlay shifts between 2002 and 2003. Because these repeals make no difference over time, the "savings" are not considered to be policy changes in Table 4.

Insurance) trust fund, in addition to the amounts required by current law;

- $35 billion or 1.2 percent as a reserve that *could* later be used to create a Medicare benefit protecting against catastrophic drug costs; and
- $16 billion or 0.5 percent for non-earmarked debt reduction.

Social Security and Medicare Solvency

By paying down more than two-thirds of the publicly held debt by 2010, the budget increases national saving and economic growth. The federal budget also will be in better shape because interest costs will shrink to zero by 2013. Tax revenue that is currently paying interest can instead pay for the retirement and health needs of the baby boomers. The President's budget takes advantage of debt reduction explicitly to strengthen the Social Security and Medicare trust funds as follows:

- ***Medicare Solvency*** — Starting in 2001 and over ten years, the budget earmarks $299 billion to the Hospital Insurance Trust Fund, extending its solvency an additional ten years to 2025.

- ***Social Security Solvency*** — Starting in 2011, the budget earmarks a portion of the on-budget surplus (the surplus excluding Social Security) to the Social Security trust fund. The amount of additional resources transferred to Social Security grows to $138 billion by 2013 and continues at that level thereafter.

  The $138 billion annual transfer uses the savings from the decrease in interest payments to the public caused by devoting 100 percent of the Social Security surplus to debt reduction beginning in 2001. Some of the transferred funds will be invested in equities. The transfers and the higher return combine to extend the trust funds' solvency to 2054.

- ***Social Security Solvency as a Potent Lockbox*** — Transfers to Social Security will occur only to the extent that the Social Security trust fund is *actually* used for debt reduction from 2001-2010. Any later proposal for large tax cuts or spending increases could result in deficits outside of Social Security and could consequently reduce the amount transferred to the Social Security trust fund, making it less solvent.

Major Policy Initiatives

Perhaps more than in any previous budget, most major policy initiatives in the 2001 budget are accomplished by integrating tax cuts and program increases, as can be seen from the examples below.

- ***Health Care*** — The health care initiative includes a net of $189 billion over ten years for a Medicare prescription drug benefit and improved coverage under Medicare, Medicaid, and the State Children's Health Insurance Program (S-CHIP); $15 billion over ten years in tax provisions designed to make public and private health insurance more affordable; and $27 billion over ten years for the long-term care refundable tax credit. The net ten-year cost of $189 billion consists of $264 billion in benefit and coverage increases and $75 billion in Medicare and Medicaid offsets. In addition, the budget includes real increases in the level of 2001 funding for annually appropriated programs such as NIH and Ryan White. See *Function 550 (Health), Function 570 (Medicare)*, and *Revenues*.

- ***Education*** — The education initiative includes real funding increases in many annually appropriated programs such as Pell Grants, class size reduction, school renovation, and special education. In addition, the budget targets tax cuts to enhance the affordability of college, to repair and modernize public schools, and to assist with student loans. Those tax cuts total $39.2 billion over ten years. See *Function 500 (Education, Training, Employment, and Social Services)* and *Revenues*.

- ***The Environment*** — The budget includes real funding increases in environmental programs, especially the Lands Legacy initiative, which is designed to increase the amount of land that is protected from commercial development. It also includes real funding increases for research on global climate change. In addition, the budget includes $9 billion over ten years in tax incentives to reduce pollution by encouraging energy efficiency in homes, buildings, and vehicles. See *Function 300 (Natural Resources and Environment)* and *Revenues*.

- ***Families*** — The budget includes real funding increases in annually appropriated programs for subsidized housing, child care, and Head Start. In addition, the budget includes $11.5 billion over ten years in entitlement improvements to expand eligibility for SSI and food stamp benefits, for other food stamp program enhancements, for a new Early Learning Fund for services to young children, and to increase child support payments to families. The budget sets aside $67.7 billion over ten years for tax cuts for married couples and families with children. Finally, the budget provides $53.9 billion over ten years in refundable tax credits for low-income workers with children and for families with child care costs. See *Function 600 (Income Security)* and *Revenues*.

- ***Farm Safety Net*** — The budget enhances the existing Farm Bill and strengthens the farm safety net. Through a supplementary income assistance program, an extension of the premium subsidy discounts, continuous sign-up for the Conservation Reserve Program (CRP), and several other measures, the proposal will provide assistance to the American agriculture community until the Farm Bill is reauthorized in 2002.

Major Tax Cuts

The budget includes both tax cuts and increases, which are discussed at more length in *Revenues*. Briefly, the ten-year tax cuts (-) and offsetting increases (+) are as follows:

Table 5: Major Tax Policy Changes in the President's Budget

2001-2010 totals in billions of dollars; minus sign equals a tax cut

Promote expanded retirement savings (Retirement Savings Accounts, etc.)	-77
Strengthen families (marriage penalty, standard deduction, child care credit, etc.)	-77
Low-income families & communities (EITC, New Markets and EZs, housing credit,	-45
Health Care (long-term care credit, COBRA relief, etc.)	-42
AMT relief and tax simplification	-40
Education (college opportunity credit, school construction & modernization, etc.)	-39
All other tax cuts (philanthropy, energy efficiency, trade, etc.)	-32
Tax Cuts	**-351**
Various corporate and related provisions	73
Tobacco excise tax and youth smoking assessments	66
Eliminate corporate benefits the President deems unwarranted	23
Reinstate Superfund taxes	13
Other miscellaneous	6
Tax Offsets	**181**
Net Tax Cuts	**-171**

Note: may not add due to rounding

This table, like Table 4 and the figures in the *Revenue* section, include the total effects of the new and expanded refundable tax credits, $85 billion over ten years. As mentioned in the text box *The Budgetary Treatment of Refundable Tax Credits*, $37 billion of that amount is "scored" as a program increase rather than a tax cut, reducing the net tax cut from $171 billion to $133 billion over ten years.

Entitlement Programs

The budget makes a wide variety of changes to entitlement programs. Selected major changes are listed in Table 6, but the overall analysis is simple; of the net $186 billion[2] in entitlement increases over ten years, $189 billion is for the President's initiative to provide a Medicare drug benefit and to increase access to Medicare, Medicaid, and S-CHIP. All the other entitlement increases are, in effect, more than paid for by offsetting entitlement reductions.

Table 6: Selected Entitlement Policy Changes in the President's Budget
2001-2010 total in billions of dollars

Medicare, Medicaid, and S-CHIP	189
Farm safety net (crop insurance, price supports, etc.)	14
SSI benefits for disabled legal immigrants	5
Food Stamps	3
Child care early learning fund	3
Extend Customs Service user fee when it expires	-12
Reduce student loan bank subsidies, recapture funds from guarantee agencies, etc.	-5

Annually Appropriated Programs

As shown above in Table 4, the budget increases the net level of *all* federal programs by $175 billion over ten years, relative to a baseline projection. Within that total, however, outlays for annually appropriated programs ("discretionary" programs) decrease by $12 billion over ten years.[3] It is the entitlement programs, and especially the programs that provide health insurance, that the President increases.

Specifically, relative to the zero real growth baseline, the budget increases defense and nondefense

[2] Consistent with the treatment throughout this section, the aggregate amounts of entitlement increases do not include the repeal of recently enacted outlay delays and do not show increases in refundable tax credits, which are instead shown as tax cuts and discussed in the *Revenues* section. As explained in the text box on refundable tax credits, however, of the $85 billion in new or expanded tax credits over ten years, $37 billion is "scored" as a program increase. Including that amount increases the net total of entitlement changes from $186 billion to $224 billion over ten years.

[3] As in Table 4, the figures used for calculating the programmatic effect of the budget's policies on entitlement programs and on appropriated programs do not take into account the repeal of recently enacted outlay delays.

appropriations somewhat in the early years, but restrains their growth rates over time. Over the course of ten years, defense outlays grow $8 billion above baseline, while nondefense outlays fall $19 billion below.

As discussed in *Appropriated Programs*, the budget's short-term increase in appropriated programs is consistent with the bipartisan, multi-decade historical record in which outlays for appropriated programs grow slightly faster than inflation but slower than the economy. In this respect, the budget's long-term, slight contraction of appropriated programs in real terms requires more restraint than this Congress or previous Congresses have shown.

Conclusion

This budget is broadly consistent with the themes that the President has stressed since he first ran for President. The budget totals stress debt reduction, thereby husbanding the economic resources that the nation will need to meet its long-term commitments to Social Security and Medicare. Within a relatively restrained fiscal policy, the President stresses budgetary policies focused on the economic and educational needs of working families and on the health needs of all Americans, young, working age, and retired.

Medicare and Social Security Solvency

The President's budget establishes a mechanism to ensure that the benefits of eliminating federal debt held by the public will be used to extend the solvency of Medicare and Social Security.

- ***Medicare Solvency*** — The budget earmarks $15 billion of the surplus in 2001, $28 billion over five years, and $299 billion over ten years, to the Medicare (Hospital Insurance) Trust Fund. This is accomplished by having the general fund transfer resources, in the form of Treasury securities, to that trust fund, increasing its stock of assets. The extra assets are estimated to extend the solvency of that trust fund an additional ten years to 2025.

- ***Social Security Solvency*** — Starting in 2011, the budget earmarks a portion of the on-budget surplus (the surplus excluding Social Security) to the Social Security trust fund. Just as with the Medicare solvency plan, the Treasury will transfer resources, in the form of Treasury securities, to that trust fund, increasing its stock of assets. The extra assets are estimated to extend the solvency of that trust fund an additional 16 years, to 2050.

  The amount transferred is $100 billion in 2011, $118 billion in 2012, and $138 billion in 2013 and each year thereafter. These amounts reflect the reduction in Treasury interest payments to the public that will result from devoting 100 percent of the Social Security surplus to debt reduction over the prior decade. In effect, by locking up the Social Security surplus for debt reduction, the government can afford to make this general fund payment to the Social Security trust fund.

  The President's budget invests half of the transferred assets in private-sector securities, which eventually make up 15 percent of the Social Security trust fund's assets. The higher rate of return earned on these securities extends the program's solvency an additional four years to 2054.

- ***Social Security Solvency as a Potent Lockbox*** — The Administration says that the transfers should occur only to the extent that the Social Security trust fund is *actually* used for debt reduction from 2001-2010. Agreement now to such a policy will constitute a potent lockbox, because any later proposal for large tax cuts or spending increases that would result in deficits outside of Social Security, and thus reduce the total amount of debt reduction over ten years, will consequently reduce the amount transferred to the Social Security trust fund, making it less solvent.

- ***Reforms to the Social Security Program*** — The President remains committed to working with the Congress in a bipartisan fashion to close the rest of the 75-year solvency gap through sensible reforms of the Social Security system. As part of a larger reform plan, the President advocates improving income protections for elderly women who experience high poverty rates relative to the overall elderly population. In addition, the President believes that an overall Social Security solvency agreement should remove barriers to work that result from the current Social Security earnings test.

Using Debt Reduction to Save Social Security and Medicare

The keystone of the President's budget is using debt reduction to extend solvency for Social Security and Medicare. Paying down the public debt is good in and of itself because it spurs greater productivity gains for the economy and it repairs the government's finances. The President's budget takes this one step further by using these benefits of debt reduction for Social Security and Medicare solvency.

The Economic Benefits of Paying Off Publicly Held Debt

The budget pays down almost 70 percent of the publicly held debt by the end of the 10-year budget window and completely extinguishes the debt by 2013. Most economists, including Federal Reserve Alan Chairman Greenspan, argue that such debt repayment can provide significant benefits to the economy. This is why the Fed Chairman has repeatedly testified to the Congress that debt reduction at this time is his highest priority for fiscal policy. Just last month, he told the Senate Banking Committee:

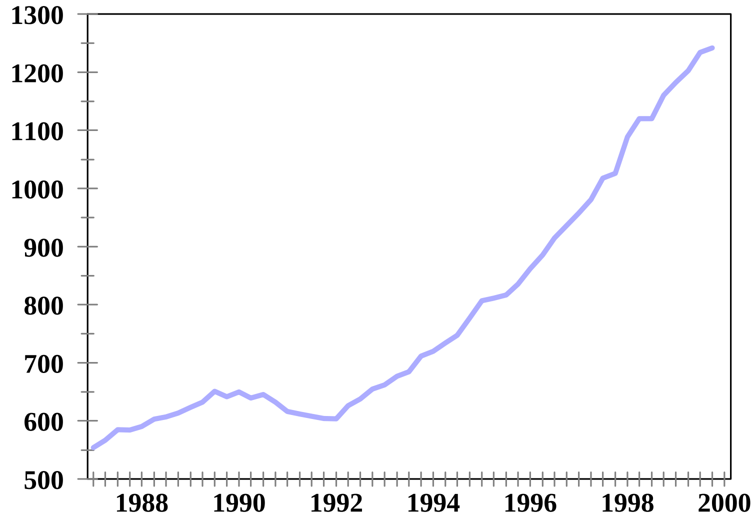
> "…I've said previously to this committee, because of the nature of the type of acceleration in productivity and dynamic change that is occurring in the American economy, my first priority would be to allow as much of the surplus to flow through into a reduction in debt to the public. In my judgment, that would be, from an economic point of view — and I recognize there are other priorities, obviously — from an economic point of view, that would be by far the best means of employing it."

As noted by Chairman Greenspan, withdrawing the federal government's demand for credit from financial markets means that more is available for the private sector. This lowers interest rates and boosts business investment in new plant and equipment. Newer, better equipment in turn boosts workers' productivity. Productivity is the wellspring of rising living standards because it means that the economy and workers' incomes can grow rapidly without igniting inflation.

In the last several years, we have seen dramatic confirmation of economists' reasoning about fiscal discipline and its economic benefits. Real (i.e. inflation-adjusted) business investment has surged at more than a ten percent annual rate over the last five years. This constitutes the strongest sustained expansion in new plant and equipment on record. As a consequence, labor productivity over the last four years has grown at a 2.8 percent average rate. This is the strongest four-year advance in productivity since the economy was recovering from the very deep 1982 recession when unemployment peaked at 10.8 percent. Before that, productivity had not grown this fast since the 1960s.

Real Business Fixed Investment

Billions of 1996 Dollars



Strong productivity growth has supported strong real income growth. The value of wages, salaries, and benefits after adjusting for inflation has risen at a 2.1 percent annual rate over the last four years, the best pace in over 25 years. This strong income growth has not come at the expense of inflation because the associated productivity gains have held down unit labor costs, which account for about 70 percent of total production costs. In fact, unit labor costs actually have *declined* over the last two quarters.

Using Improved Federal Finances for Social Security and Medicare Solvency

Paying off the debt held by the public obviously has a beneficial effect on the government's financial position as well. Interest payments on publicly held debt peaked at $244 billion in 1997. As a share of all federal spending, interest peaked the year before at 15.4 percent of total outlays. Even in the aftermath of World War II, interest never constituted such a high share of the budget. The interest cost of the publicly held debt ranks as the third largest spending item in the government's budget after Social Security and national defense. Carrying such a large interest expense means that taxes must be higher and that other spending priorities get crowded out.

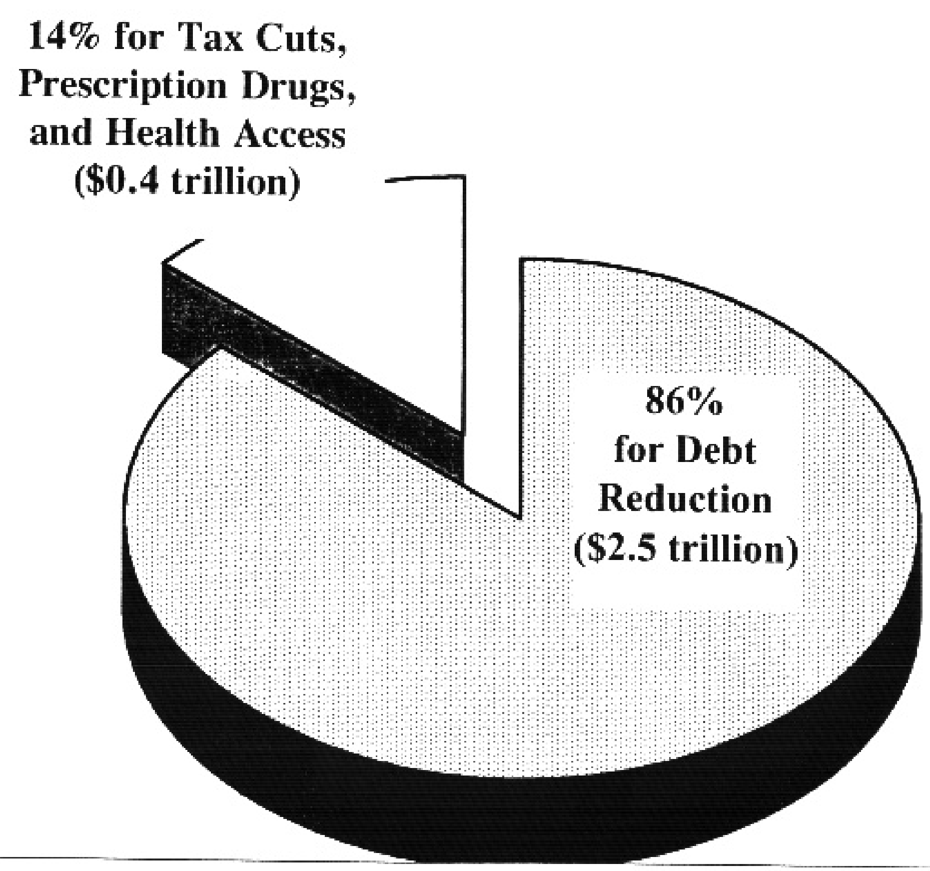
The President's budget cuts the interest burden in half by 2005 and gets rid of it completely by 2013. This improvement in the government's finances helps create the resources needed to address the long-term fiscal challenges of Social Security and Medicare that loom just over the horizon.

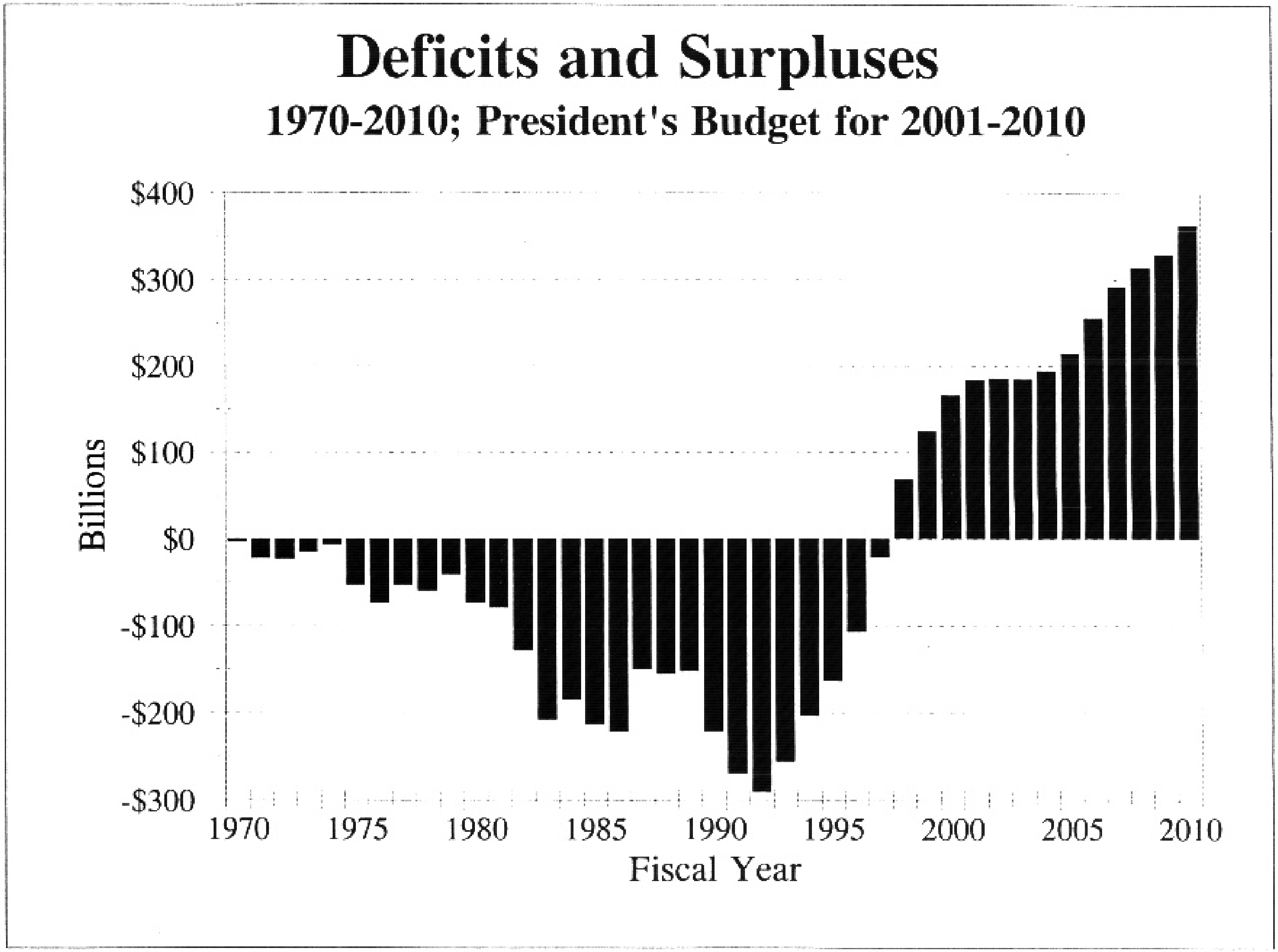
The President specifically earmarks the financial benefits of debt reduction to extend the solvency of these two priority programs.

It should be noted that Social Security and Medicare also would benefit from the improved economy to which debt repayment gives rise. Faster economic growth would boost the payroll tax revenues that support the two programs. However, the budget wisely does not incorporate these “dynamic” effects because the difficult task of estimating them is prone to abuse and fosters the avoidance of difficult choices. Rather, the budget relies solely on the direct consequences of debt reduction on the government’s finances as the basis for extending solvency.

DEBT REDUCTION:

The President's Major Use of the $2.9 Trillion Baseline Surplus




Deficits and Surpluses
1970-2010; President's Budget for 2001-2010
$400
$300
$200
$100
$0
-$100
-$200
-$300
Billions
1970
1975
1980
1985
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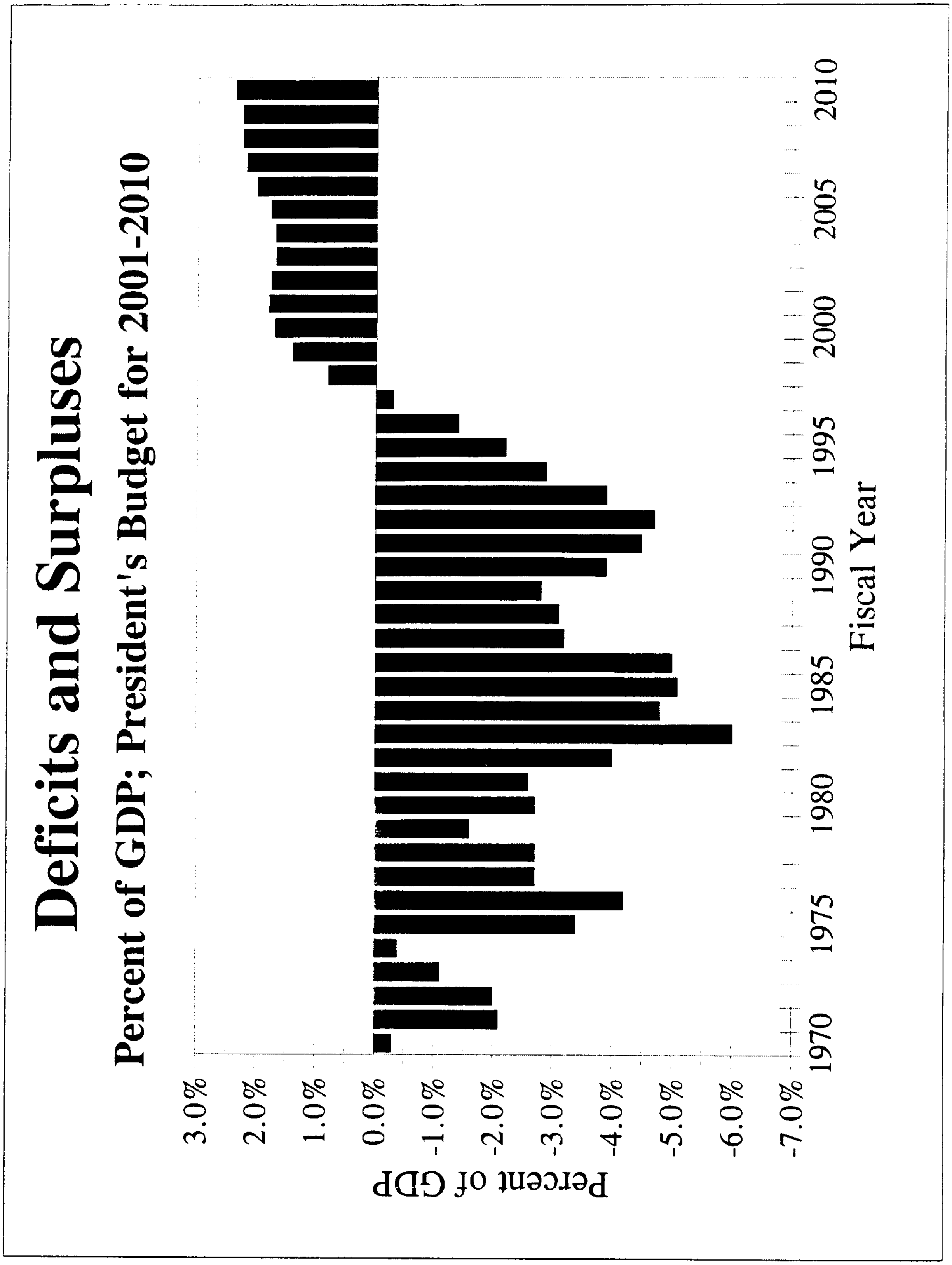
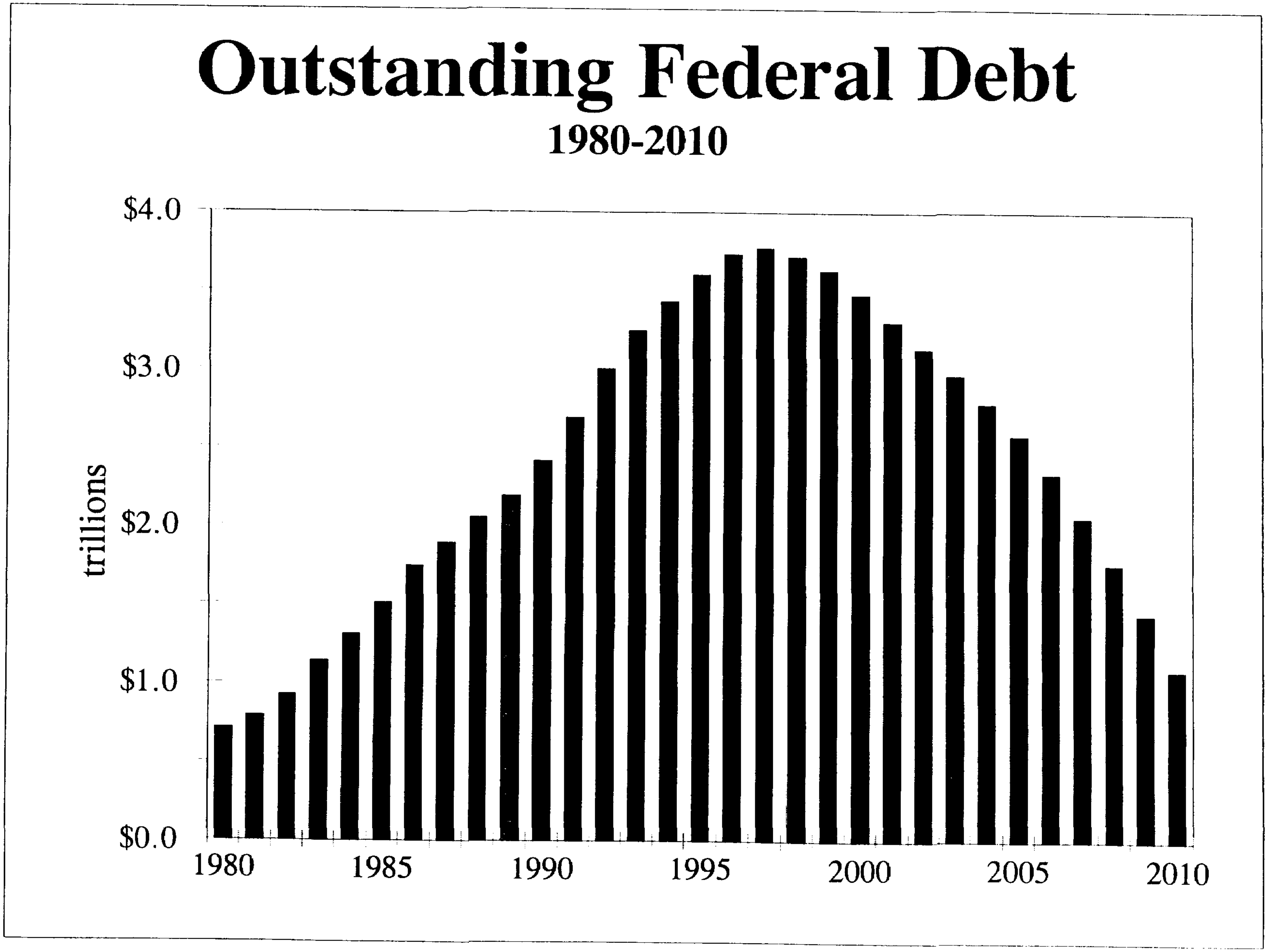
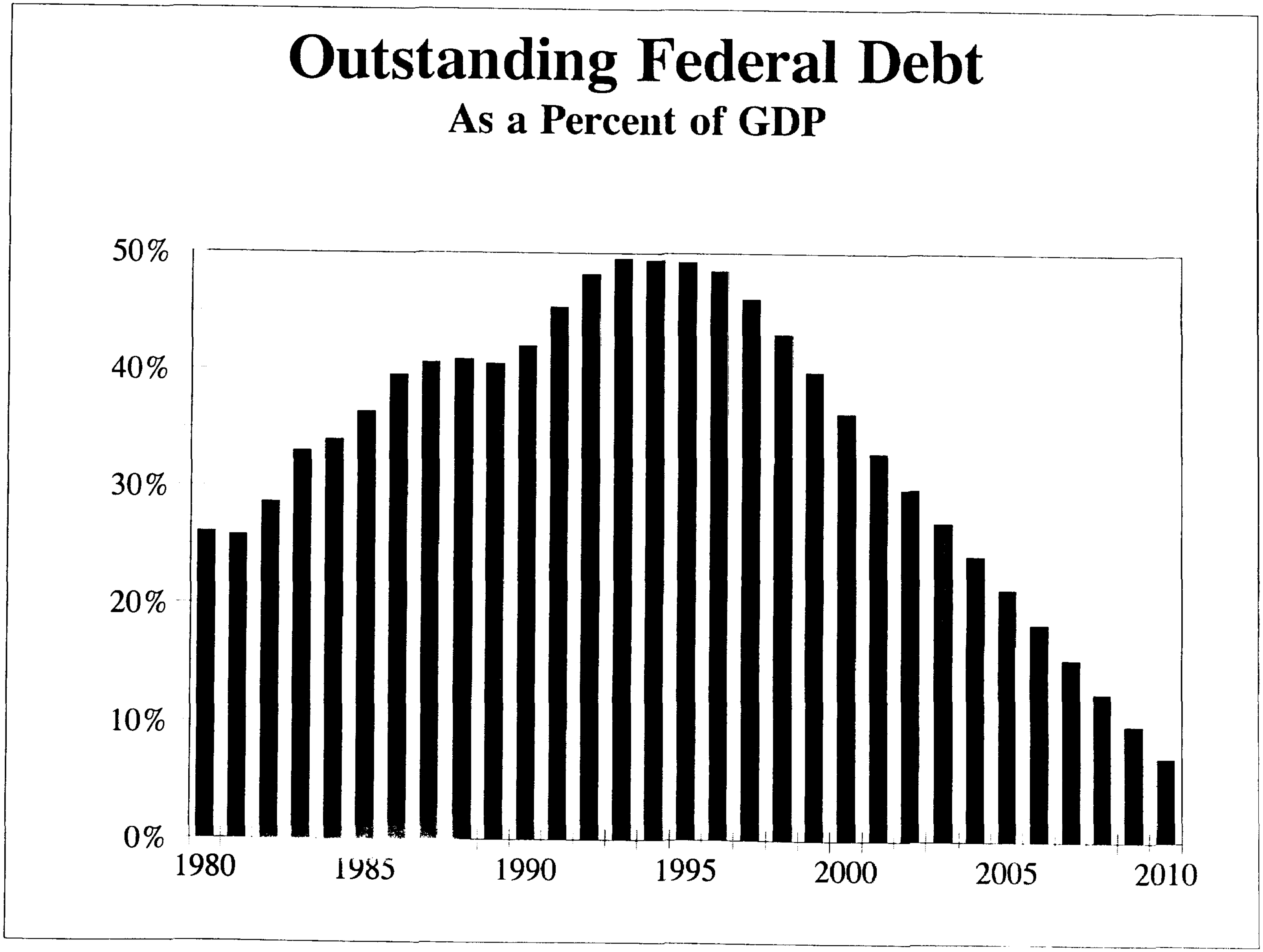
1995
2000
2005
2010
Fiscal Year



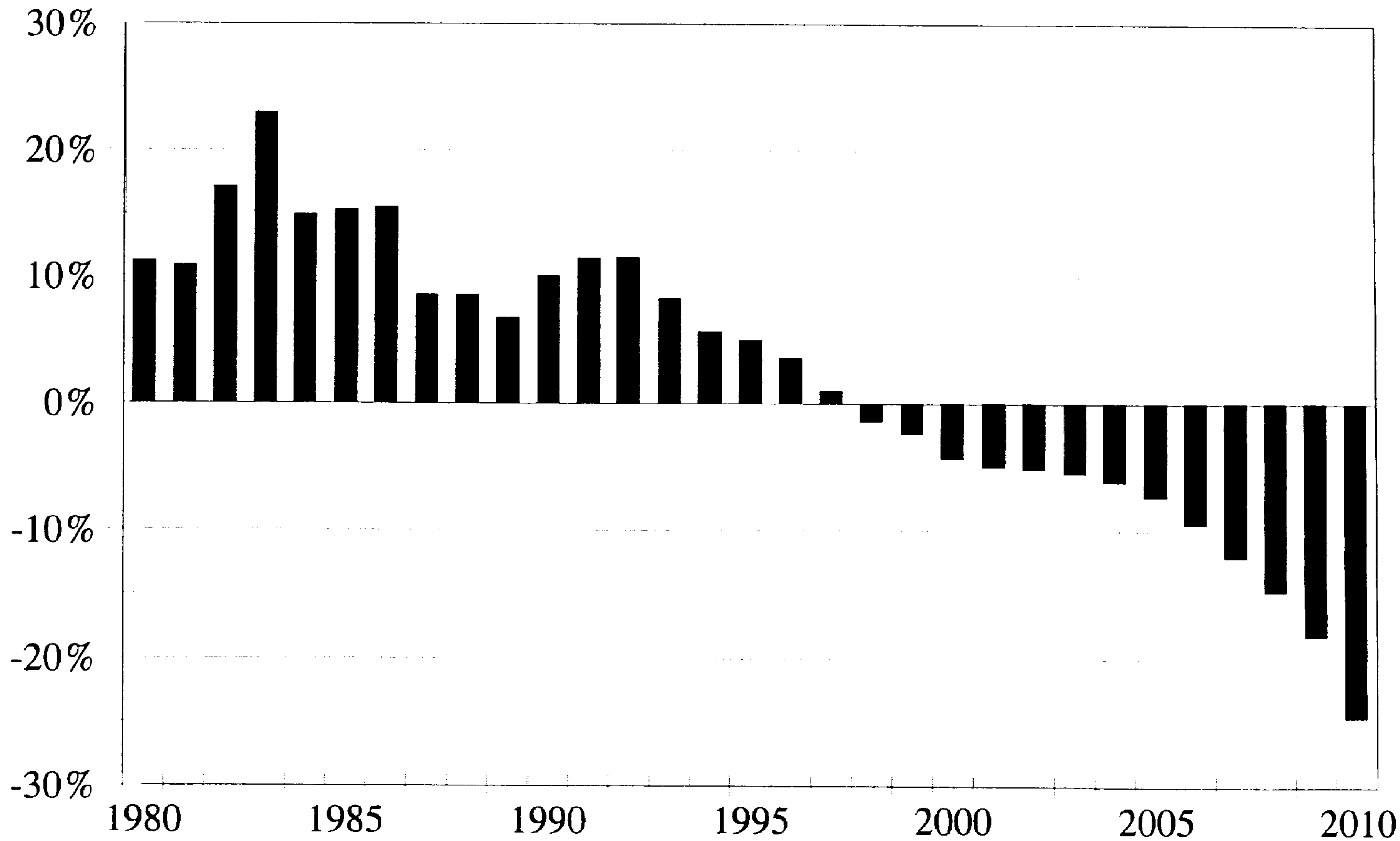
Deficits and Surpluses
Percent of GDP; President's Budget for 2001-2010
Percent of GDP
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
-6.0%
-7.0%
1970
1975
1980
1985
1990
1995
2000
2005
2010
Fiscal Year


Outstanding Federal Debt
1980-2010
trillions
$4.0
$3.0
$2.0
$1.0
$0.0
1980
1985
1990
1995
2000
2005
2010


Outstanding Federal Debt
As a Percent of GDP
50%
40%
30%
20%
10%
0%
1980
1985
1990
1995
2000
2005
2010

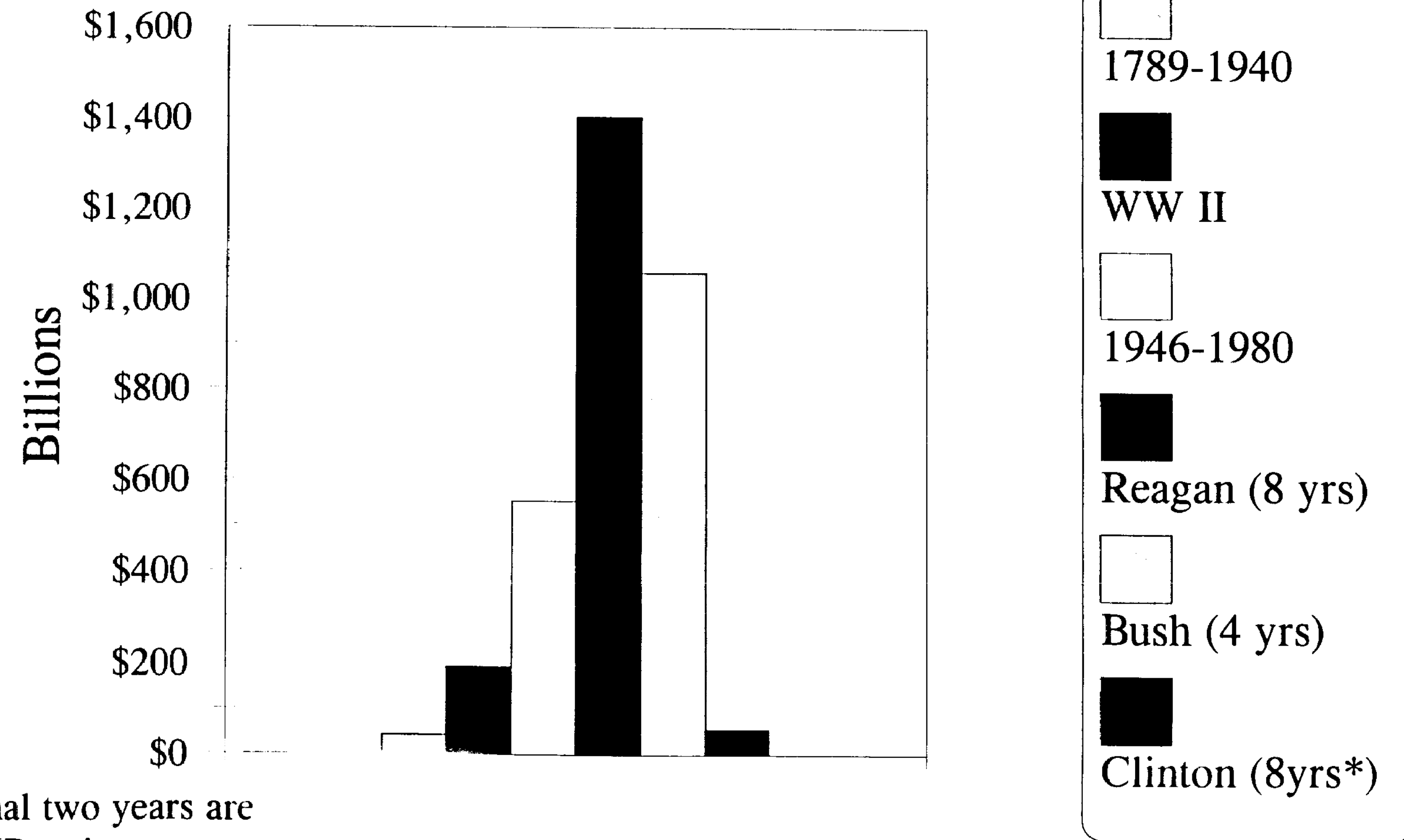
Outstanding Federal Debt

Annual Percentage Change



Federal Debt

(borrowed from the public)



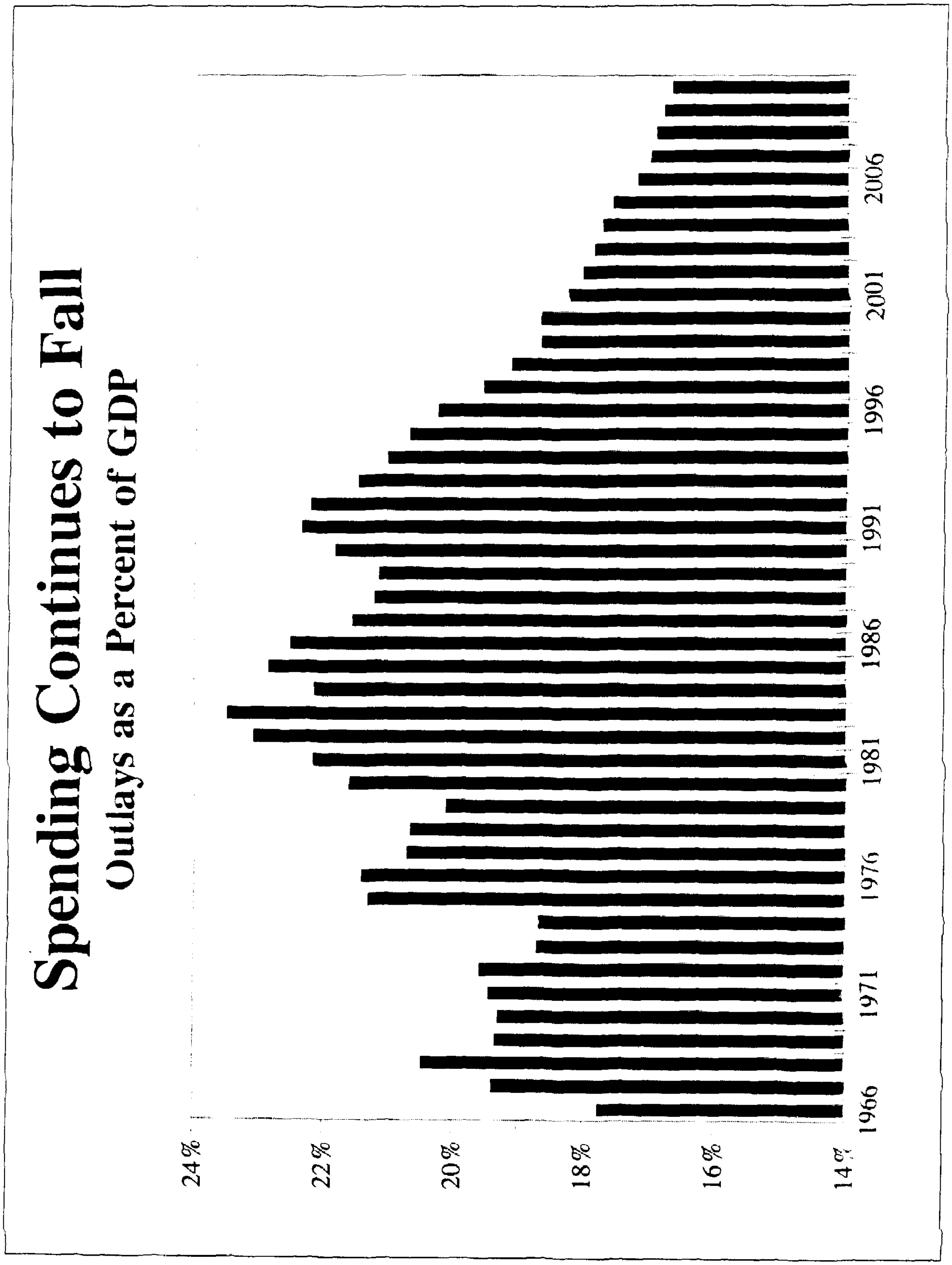
*final two years are OMB estimates

The Ten Biggest Deficits since 1970

FY	Deficit	%GDP	President	yr	Rank
1992	-290.4	-4.7	Bush	3	1
1991	-269.4	-4.5	Bush	2	2
1993	-255.1	-3.9	Bush	4	3
1986	-221.2	-5.0	Reagan	5	4
1990	-221.2	-3.9	Bush	1	5
1985	-212.3	-5.1	Reagan	4	6
1983	-207.8	-6.0	Reagan	2	7
1994	-203.3	-2.9	Clinton	1	8
1984	-185.4	-4.8	Reagan	3	9
1995	-164.0	-2.2	Clinton	2	10

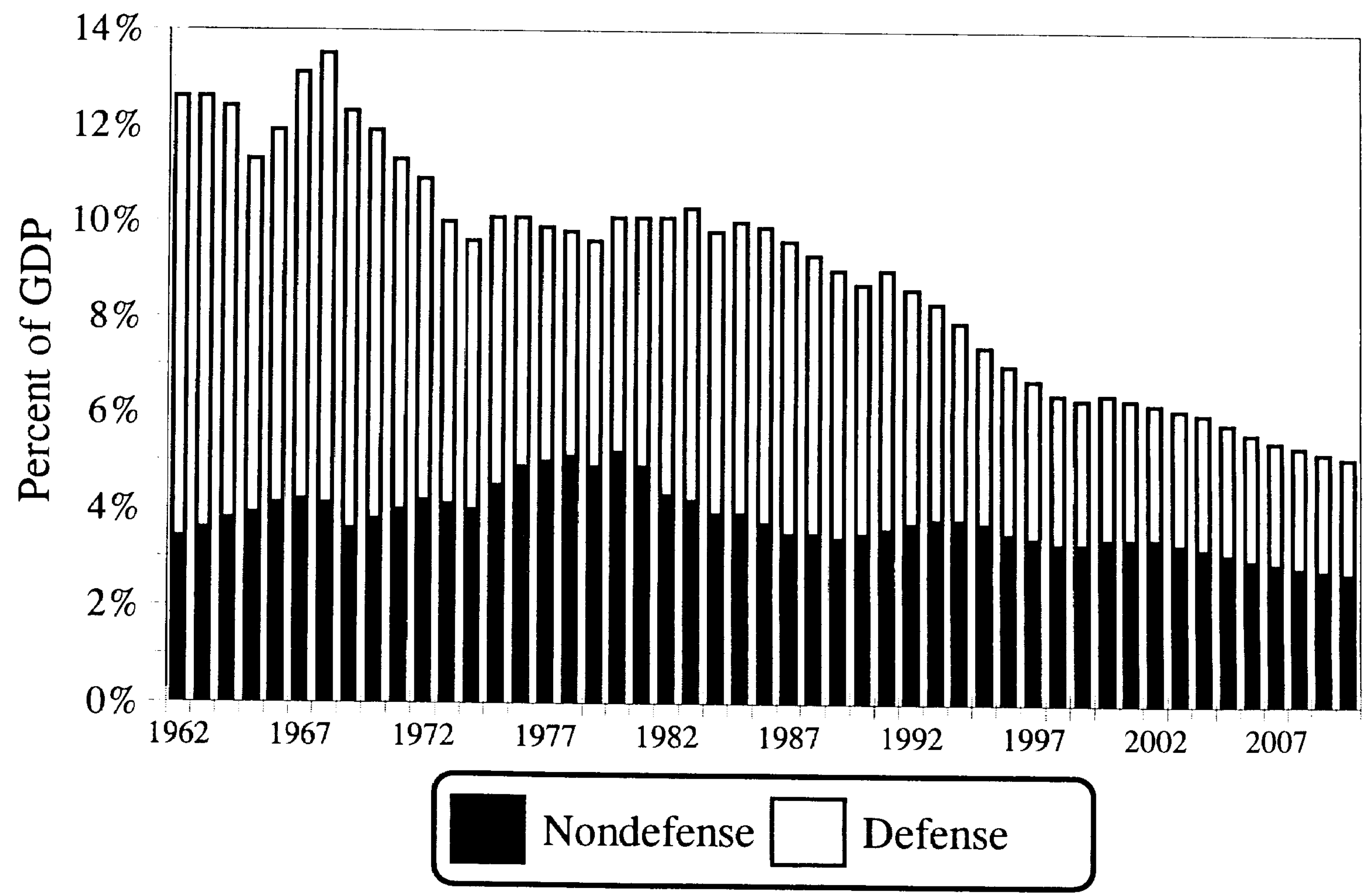
The Ten Biggest Since 1970 Deficits as a % of GDP

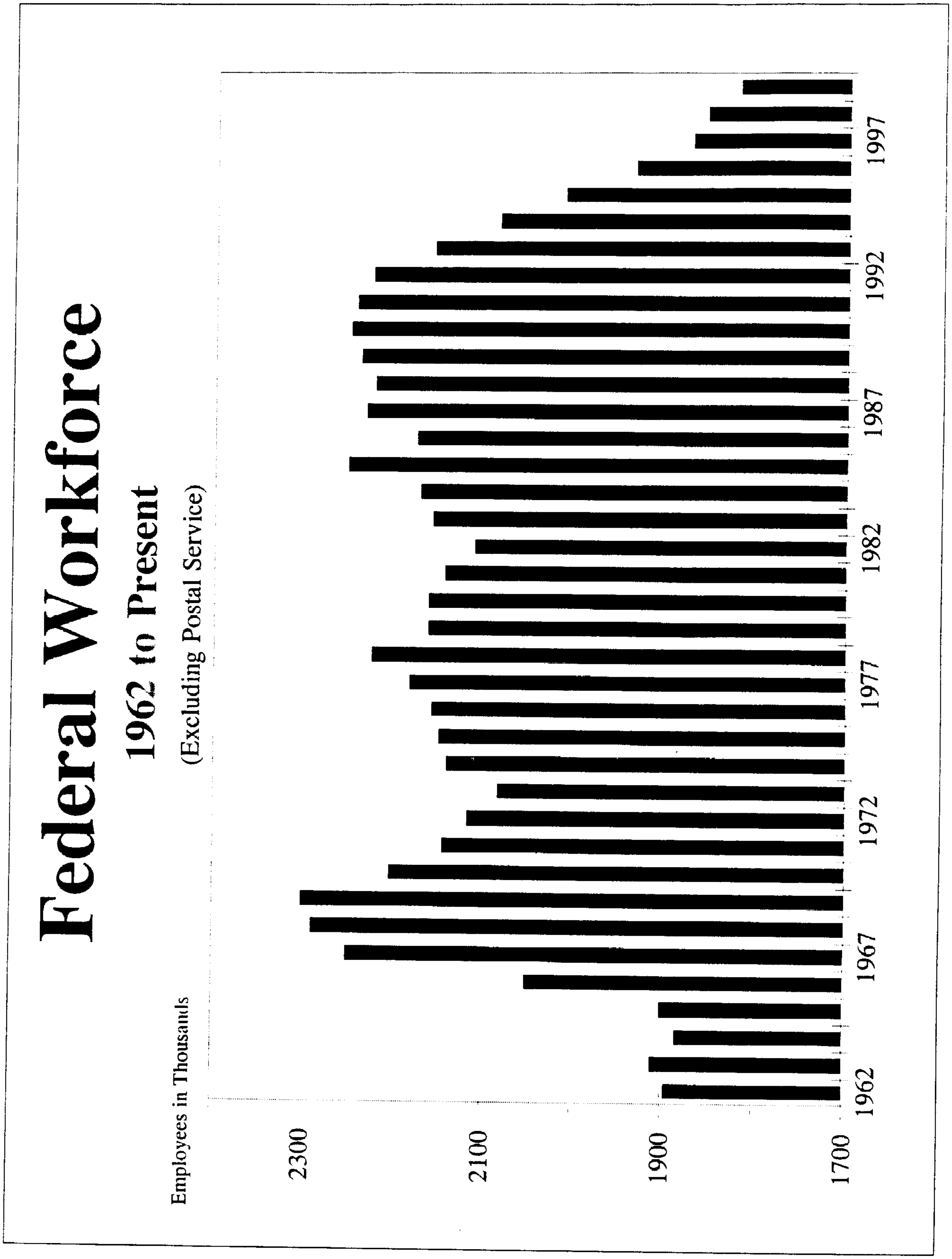
FY	Deficit	%GDP	President	yr	Rank
1983	-207.8	-6.0	Reagan	2	1
1985	-212.3	-5.1	Reagan	4	2
1986	-221.2	-5.0	Reagan	5	3
1984	-185.4	-4.8	Reagan	3	4
1992	-290.4	-4.7	Bush	3	5
1991	-269.4	-4.5	Bush	2	6
1976	-73.7	-4.2	Ford	1	7
1982	-128.0	-4.0	Reagan	1	8
1993	-255.1	-3.9	Bush	4	9
1990	-221.2	-3.9	Bush	1	10


Spending Continues to Fall
Outlays as a Percent of GDP
24%
22%
20%
18%
16%
14%
1966
1971
1976
1981
1986
1991
1996
2001
2006

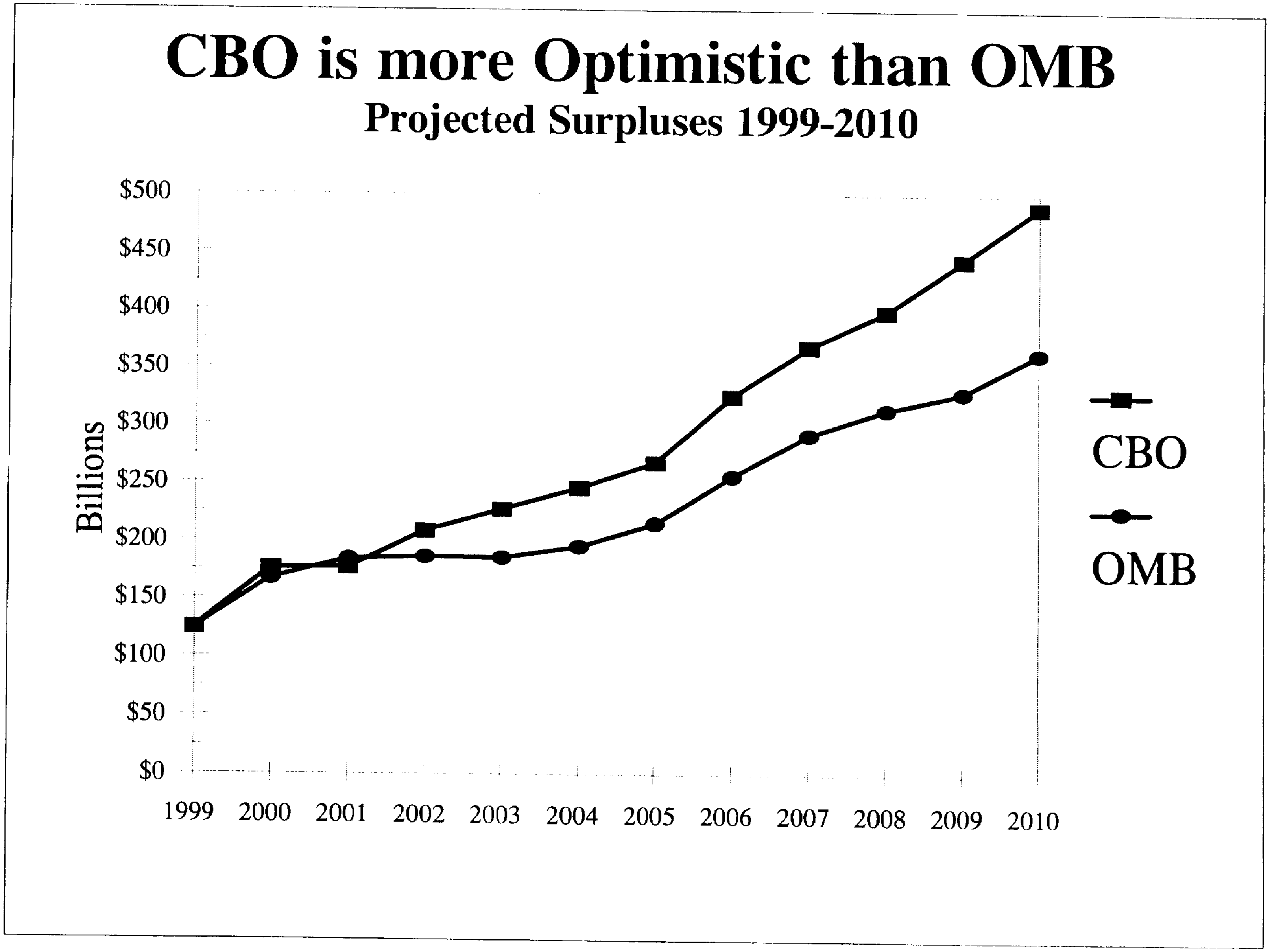
Discretionary Spending

1962-2010



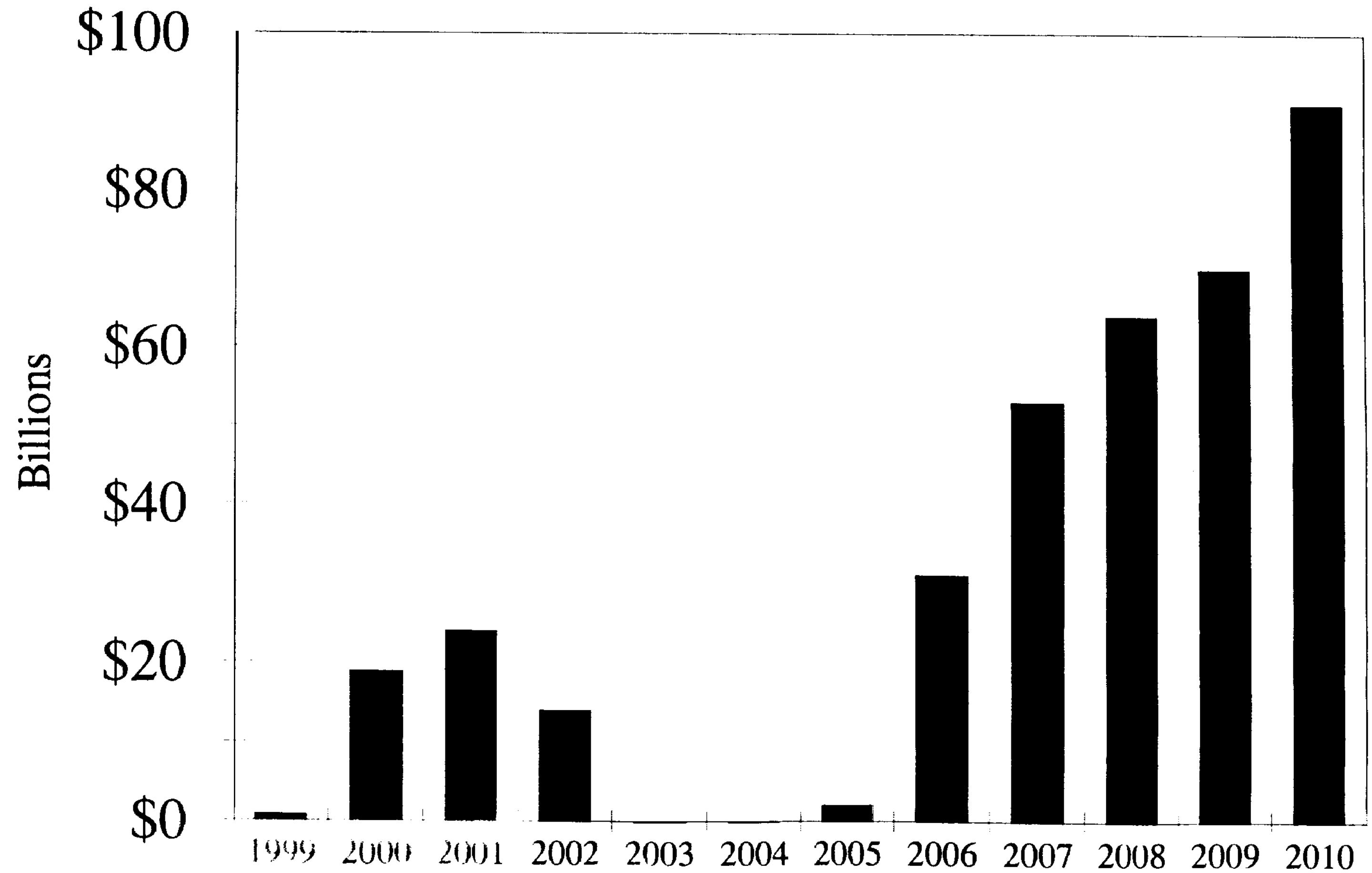


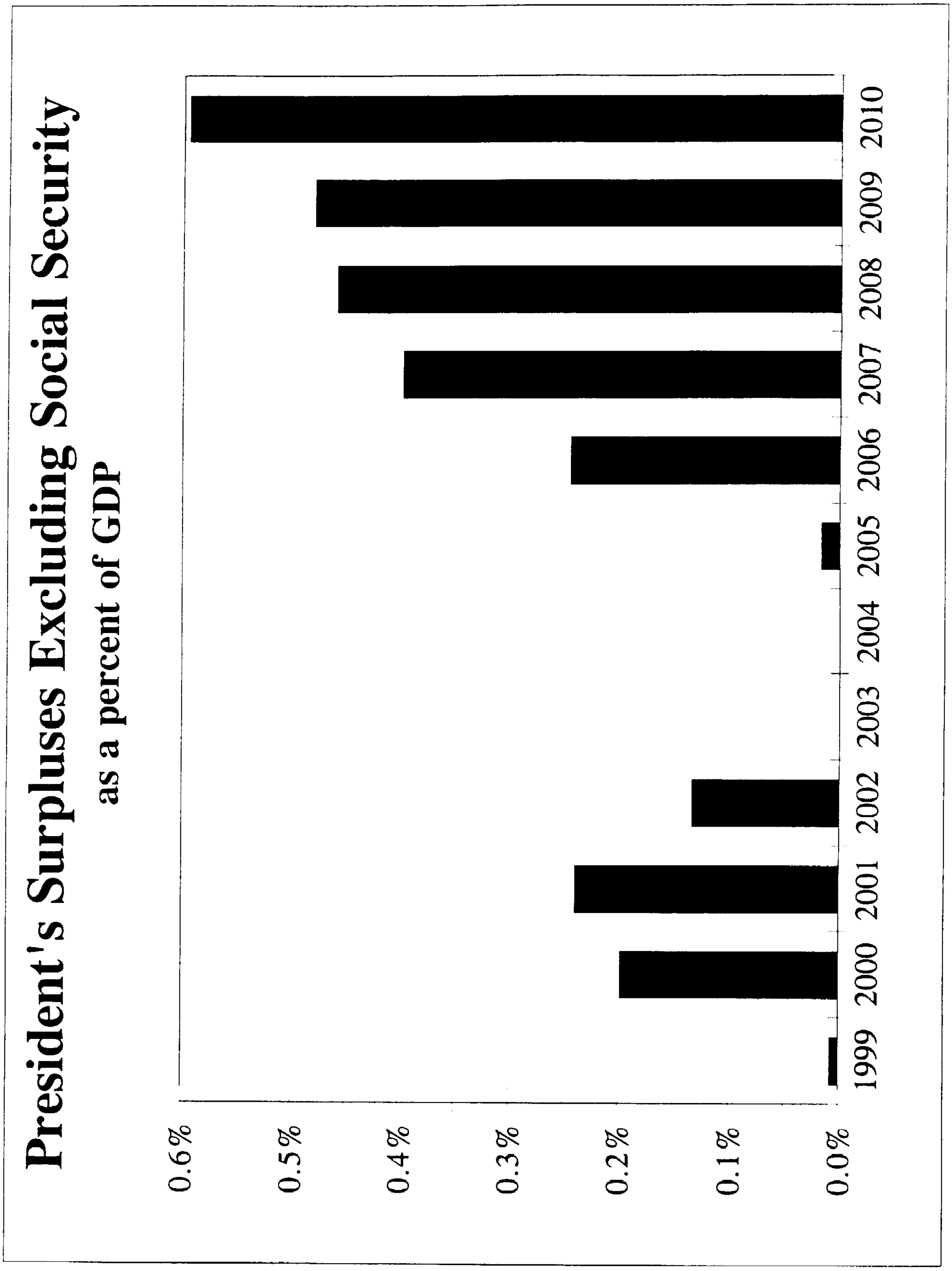
Federal Workforce
1962 to Present
(Excluding Postal Service)
Employees in Thousands
2300
2100
1900
1700
1962
1967
1972
1977
1982
1987
1992
1997


CBO is more Optimistic than OMB
Projected Surpluses 1999-2010
Billions
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
CBO
OMB

President's Surpluses Excluding Social Security

1999-2010




President's Surpluses Excluding Social Security
as a percent of GDP
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0.0%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010

Appropriated Programs

President Clinton's budget funds appropriated programs at a level close to zero real growth (the level needed to stay even with inflation) over ten years. Appropriated programs, also known as "discretionary" programs, are those controlled by the annual appropriations process. The President's budget provides $30.8 billion (5.2 percent) more budget authority than the 2000 level for appropriated programs; this is above zero real growth for 2001 by $15.2 billion in budget authority and $4.4 billion in outlays. However, over time the funding drops; outlays from 2001-2005 are $7.4 billion more than a zero real growth baseline, which is less than $1.5 billion per year on average,[4] and budget authority is only $3.3 billion above a zero real growth baseline. Over ten years (2001-2010), the budget is *below* a zero growth baseline by $27.3 billion in budget authority and $11.7 billion in outlays.

Increases/Decreases in Appropriated Outlays
Relative to a Zero Real Growth Baseline
(in billions of dollars)

	2000	***2001***	***2002***	***2003***	***2004***	***2005***	***2001-05***	***2001-10***
Defense	1.6	1.3	-1.5	-1.9	-1.4	4.9	1.4	2.9
(Repeal of timing shifts)	4.7	-4.7	--	--	--	--	-4.7	-4.7
Non-Defense	0.8	3.1	4.2	1.8	-0.6	-2.6	5.9	-14.5
(Repeal of timing shifts)	1.3	-1.3	--	--	--	--	-1.3	-1.3
TOTAL*	2.3	4.4	2.7	-0.1	-2.0	2.3	7.4	-11.7

**The totals do not include the repeal of timing shifts because they do not contribute to net savings or cost over time.*

Appropriated Programs for 2001

The President's budget provides a substantial boost over zero real growth for several high priority issues (national defense, education and social services, low-income housing, law enforcement, and scientific research) for 2001. Outside of these areas, the budget generally does not provide significant increases above inflation, and the levels for some programs are below the levels necessary to keep pace with inflation. The budget follows a baseline that in aggregate provides zero real growth for appropriated programs over time. Measured in constant 2000 dollars, the President's budget for appropriated programs between 2001 and 2005 is 2.5 percent *less* than the average appropriation during the Bush Administration (1989-1992).

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[4]This analysis excludes $6.0 billion in 2000 "costs" and 2001"savings" from the repeal of outlay timing shifts included in 2000 appropriations, such as the federal employee pay delay.

The table on the next page compares the 2001 budget with the 2000 levels. The 2001 budget repeals outlay timing shifts enacted in 2000 appropriations, such as the federal employee pay delay. The repeal of these timing shifts is shown in the table for both defense and non-defense appropriations. To make the 2000 and 2001 budget authority figures comparable, the table also adjusts the enacted 2000 budget authority upward by $14.4 billion to reflect the fact that 2000 funding is, for some agencies, artificially low; last fall, Congress shifted that amount of funding from 2000 to 2001 in the "13-month" gimmick it used to avoid the caps on appropriations. This is essentially a timing shift as well, but affects only budget authority. Finally, the table does not include the President's offsets to appropriated programs for 2001, totaling $7.9 billion in budget authority and $7.5 billion in outlays. These offsets are a combination of cuts in mandatory programs and increases in revenues that will be (presumably) included in enacted appropriation bills. They are reflected instead as mandatory or revenue proposals.

Appropriations (in billions of dollars)

		2000		2001		Change from 2000	
		BA	Outlays	BA	Outlays	BA	Outlays
Defense		294.1	286.5	306.3	296.8	12.2	10.3
	Outlay Timing Shifts	0.0	4.7	0.0	-4.7	0.0	-9.4
	Subtotal, Defense	**294.1**	**291.2**	**306.3**	**292.1**	**12.2**	**0.9**
Non-Defense		297.3*	325.1	315.9	343.1	18.6	18.0
	Outlay Timing Shifts	0.0	1.3	0.0	-1.3	0.0	-2.6
	Subtotal, Non-Defense	**297.3**	**326.4**	**315.9**	**341.8**	**18.6**	**15.4**
	Total Appropriations	**591.4**	**617.5**	**622.2**	**633.9**	**30.8**	**16.4**

**Includes $14.4 billion in advance appropriations, for comparability.*

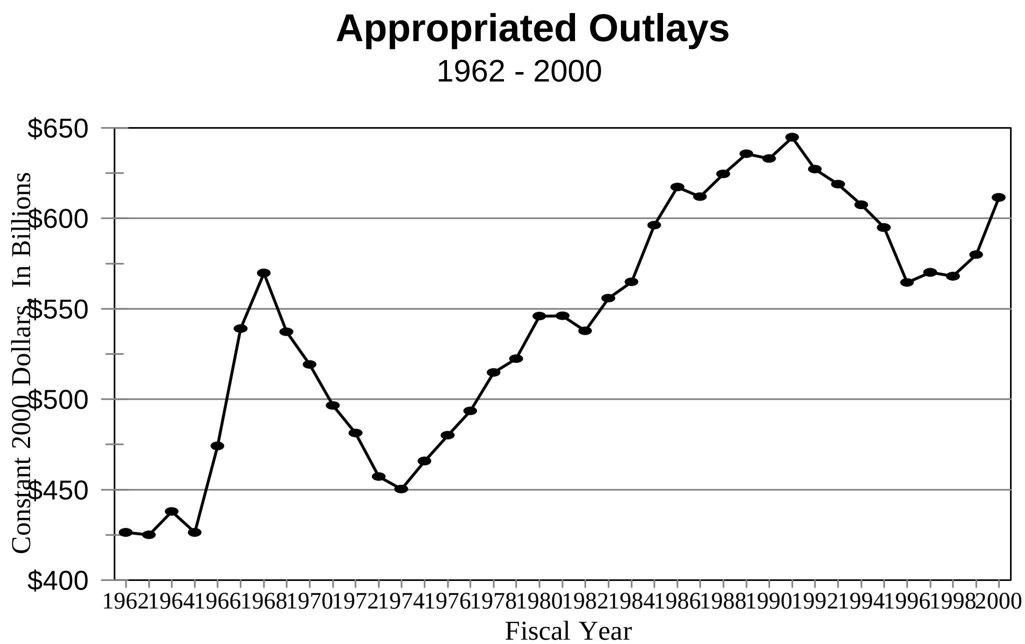
Realistic Levels of Appropriations

As discussed above, the President's budget increases funding for appropriated programs slightly above a zero real growth baseline for the next five years, 2001-2005, but ends up below the baseline over the 2001-2010 period. A review of appropriated program spending since 1962 may help assess whether the President's budget provides a realistic level for appropriated programs.

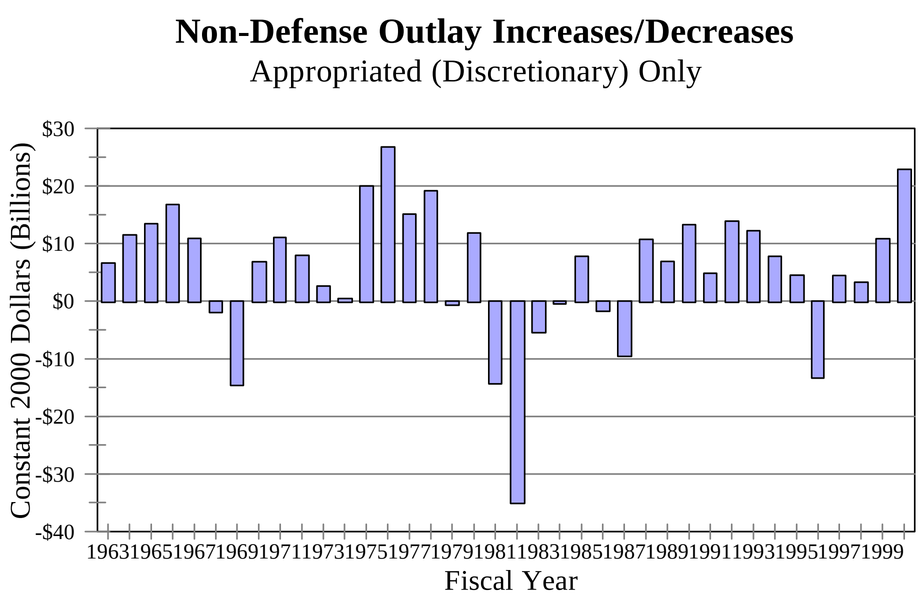
Appropriated Programs Measured in Real Terms

As Graph 1 on the next page indicates, outlays in inflation-adjusted (real) terms have generally increased, with a few peaks and valleys, since 1962 (the first year budget data is available for appropriated programs). The peaks are primarily attributable to increases in defense spending associated with the Vietnam War, the Reagan defense buildup, and the Persian Gulf conflict, and the valleys naturally occur when these events end. Despite the valleys, the trend is one of steadily increasing spending, and this occurred regardless of whether we enjoyed a surplus (usually not) or ran a deficit (generally the case until 1998).

Graph 1



Graph 2

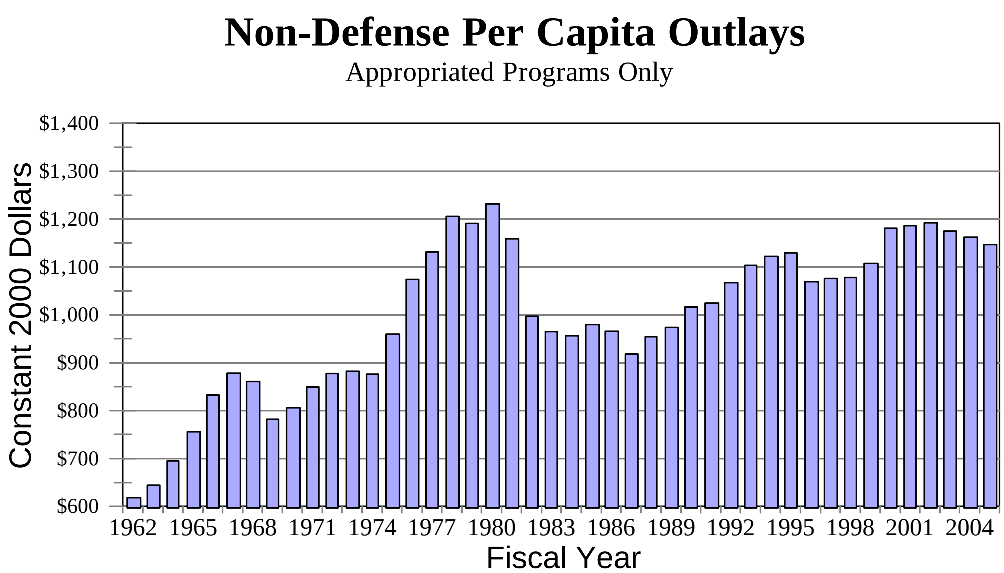


Graph 2 on the previous page focuses only on non-defense appropriated programs. As this graph indicates, the years in which spending for non-defense programs increased in real terms far outnumber the years in which spending shrank. Since 1987, there has been only one year, 1996, in which non-defense outlays did not record a real increase. These increases have occurred regardless of whether a Republican or a Democrat occupied the White House, or whether the Congress was controlled by Republicans or Democrats. In fact, the increases in non-defense outlays for 1999 and 2000 under a Republican-controlled Congress are the greatest back-to-back increases in non-defense outlays since the late 1970s.

Real Per Capita Spending for Appropriations

Another measure of appropriated programs is to view inflation-adjusted spending on a per-capita basis. After all, the needs of many non-defense programs, such as education, low-income assistance programs, and transportation, are linked to population growth. (This linkage does not exist for defense spending, which is tied to external threats.)

Graph 3

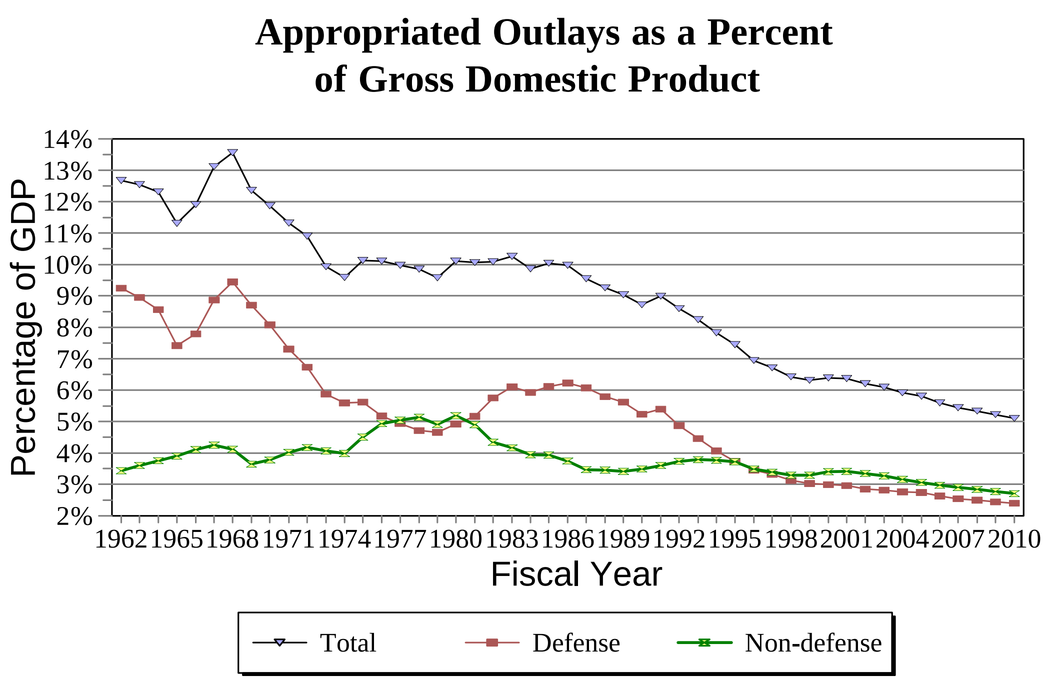


Graph 3 shows outlays for non-defense appropriated programs on a per-capita basis measured in constant 2000 dollars from 1962 through 2005. As Graph 3 indicates, there is a historical trend of increasing per capita outlays for non-defense programs. The President's budget increases non-defense outlays per capita by $5 in 2001 and $6 in 2002, and then his budget *cuts* non-defense outlays per capita by a total of $45 from 2003-2005. In contrast, the Congress appropriated an increase of $29 in per capita non-defense outlays for 1999 and of $74 for 2000.

Appropriated Programs as a Percentage of Gross Domestic Product

Yet another way to analyze appropriated programs is as a percentage of Gross Domestic Product (GDP). This may indicate the affordability of appropriated programs. Graph 4 charts total outlays for appropriated programs, defense outlays, and non-defense outlays as a percentage of GDP. For years 2000-2010, the levels reflect the President's 2001 budget.

Graph 4



As Graph 4 indicates, outlays as a percentage of GDP have steadily dwindled. Defense and non-defense outlays as a percentage of GDP were the same in both 1995 and 1996. Since that time, non-defense spending has dropped to either 3.3 percent or 3.4 percent of GDP through 2000, while defense has declined to 3.0 percent.

Under the President's budget, total outlays for appropriated programs would drop from 6.4 percent of GDP for 2000 to 5.1 percent in 2010. Defense would decline from 3.0 percent of GDP for 2000 to 2.4 percent in 2010, while non-defense would fall from 3.4 percent to 2.7 percent.

While appropriated spending has generally increased, both in real and per capita terms, the growth of the economy has actually made appropriated programs more affordable to society as a whole. In other words, the growth of appropriations, while real, has not kept pace with the growth of the economy.

Alternative Levels for Appropriated Programs

By historical standards, the President's budget sets a restrained level for appropriated programs. But some Republicans are contemplating a five- or ten-year plan that will freeze overall funding for appropriated programs at 2000 levels. On the other hand, Speaker Dennis Hastert stated that "it's not realistic to say that we are going to freeze budgets for the next ten years." *(Washington Post*, 1/31/00).

As the historical analysis above indicates, real cuts to non-defense appropriated programs have been difficult to sustain over time. An overall freeze is even more difficult to sustain if Congress, as the President does, keeps defense even with inflation. OMB estimates that under this scenario, non-defense programs would be cut 25 percent below 2000 program levels in 2005 and 44 percent in 2010.

Going further, some Members are contemplating a baseline for appropriated programs that assumes a ten-year freeze at the 2000 funding level excluding "one-time" costs such as the decennial census and the Wye River aid package. While it is true that these particular one-time costs may not occur again, this approach does not take into account the fact that *other* one-time costs surely will occur. Indeed, as the table below indicates, 2000 actually includes *lower* one-time costs than the historical average.

Possible Adjustments to a Five-Year Funding Freeze

What may be removed from the 2000 base:	(BA in billions)
! Census	-22.4
! Wye River funding and international arrears	-11.3
! Disaster relief (2000 level)	-12.4
Subtotal	**-46.1**
What this approach ignores:	
! Military operations (historical average)	+13.0
! Natural disasters (historical average)	+33.0
! Census compilation costs (for 2001)	+ 1.0
! Section 8 contract renewals	+22.0
Subtotal	**+69.0**

Discretionary Spending Limits

The Bipartisan Summit Agreement of 1990 placed statutory dollar limits or "caps" on appropriated budget authority and outlays for 1991-1995. The law includes a "sequestration" mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determines that Congress has breached the caps. The appropriations caps were extended through 1998 when President Clinton's first budget agreement was enacted in 1993, and the 1997 Balanced Budget Agreement (BBA) revised and extended these caps through 2002.

Over the last two years, Congress has demonstrated that the caps for 1999 and 2000 were not realistic. As the table below indicates, OMB estimates that through a combination of emergency designations of dubious merit (such as the decennial census), timing shifts, advance appropriations, and other means, Congress succeeded in providing considerably more appropriated funding for 1999 and 2000 than the caps allowed. While some of this increase was for legitimate emergencies, the vast bulk reflects a bipartisan consensus to increase defense, education, biomedical research, and other programs in real terms, and a bipartisan unwillingness to cut other programs to stay within the BBA caps.

The President's budget raises the caps to more realistic levels — equal to his budget proposals less his "mandatory and revenue offsets" — and extends them through 2010. These new caps reflect a spending path with close to zero real growth, allowing only $3.3 billion above the rate of inflation over the next five years and providing $27.3 billion *below* the rate of inflation over ten years. Complying with the President's new funding limits will require Congress to apply stricter fiscal restraint than it has in the past several years.

Appropriations Caps
(OMB estimates, in billions of dollars)

		1998	1999	2000	2001	2002
Caps from the 1997 Balanced Budget Act	BA	526.9	533.0	537.2	542.0	551.1
	OL	553.3	559.3	564.3	564.4	560.8
Amount Congress Appropriated Above the Caps	BA	3.0	26.4	49.3		
	OL	1.0	13.5	29.8		
Amount the 2001 Budget Raises the Caps	BA				72.3	74.4
	OL				62.0	88.1

Conclusions

A review of the last four decades of spending for appropriated programs and an analysis of the President's 2001 budget reveal several conclusions:

1. The historical trend for appropriated spending, especially for non-defense programs, is generally one of positive real growth. Cuts to appropriations do occur, but the cuts are not sustained over any significant period.

2. The President's budget does provide increases for 2001 and 2002, but these are restrained compared with the increases Congress provided for 1999 and 2000.

3. After 2002, the President's budget calls for modest cuts relative to a zero real growth baseline.

4. Historical trends suggest that holding spending for appropriated programs to zero real growth levels for the next ten years will be difficult to achieve.

5. Assuming a level of spending for appropriations that is below a zero real growth baseline is not realistic.

Revenues

Summary

President Clinton's budget includes $101.7 billion in gross tax relief over five years and $351.4 billion over ten years. Approximately $37 billion of the tax relief represents the portion of refundable tax credits, such as the Earned Income Tax Credit (EITC), that is "scored" as a program increase. Tax relief is offset by a variety of other tax provisions that raise $47.2 billion over five years and $95.6 billion over ten years. The President's budget also includes tax policies related to the Airport and Airway Trust Fund, tobacco, and various other items that offset an additional $44.2 billion over five years and $85.2 billion over ten years.

The budget targets tax relief to specific policy objectives such as promoting education, reducing poverty, mitigating the marriage penalty, strengthening community revitalization, broadening health care availability, strengthening families, promoting retirement savings, providing relief from the individual alternative minimum tax (AMT), encouraging philanthropy, and safeguarding the environment. In many cases, these tax changes complement program initiatives aimed at the same goals.

Some of the cost of these tax initiatives is offset by the President's policies to limit the benefits of corporate tax-shelter transactions. The budget's tax offsets build upon those the President proposed last year. The budget also reinstates Superfund taxes, converts Airport and Airway Trust Fund taxes to a cost-based user fee system, increases the excise tax on tobacco, and addresses other policy goals that further offset the revenue loss of the budget's tax relief.

By 2005, the President's budget lowers total federal receipts as a percent of GDP to the level at the beginning of the 1980s. The high level of revenues relative to the economy in recent years has been portrayed incorrectly as evidence of high tax burdens for the typical American family. However, research by the Congressional Budget Office, the Joint Committee on Taxation, and the Treasury shows that tax burdens for the vast majority of families actually have fallen during the last decade.

Highlights of Major Tax Cuts

! ***Expanding Educational Opportunities*** — The budget includes a number of education initiatives. See discussion of education policy in *Function 500 (Education, Training, Employment, and Social Services)*. The two most important are:

  College Opportunity tax cut — The President's budget allows a tax deduction of up to $10,000 of tuition and fees for any postsecondary education, including training and graduate school. Alternatively, families have the option to take a 28 percent credit, enabling families to receive up to $2,800 in tax relief. This provision costs $11.1 billion over five years and $29.8 billion over ten years.

School Modernization — The budget includes a tax credit to lower the cost of bonds issued to finance school modernization. The credit applies to $24.8 billion in such bonds over two years to modernize up to 6,000 schools. This provision costs $2.4 billion over five years and $8.0 billion over ten years.

! ***Poverty Relief and Community Revitalization* —** The budget includes several tax initiatives to revitalize and aid communities. See discussion of other programs in *Function 370 (Commerce and Housing Credit)* and *Function 600 (Income Security)*.

Expanding and simplifying the Earned Income Tax Credit (EITC) — The budget increases the child credit for families with three or more children receiving the EITC and reduces the rate at which the EITC phases out by two percentage points. This delivers up to $1,200 of tax relief to 6.4 million families. This provision costs $11.5 billion over five years and $23.6 billion over ten years.

Expanding the low-income housing tax credit — The low-income housing credit is allocated at a rate of $1.25 per capita per year for each state. The budget includes a 40.0 percent increase to $1.75 per capita. This credit costs $1.0 billion over five years and $5.7 billion over ten years.

Empowerment Zones and the New Markets tax credit — The President's budget expands incentives for investment in Empowerment Zones and increases their number. In addition, the budget more than doubles the New Markets tax credit. Together, these initiatives cost $4.0 over five years and $9.5 billion over ten years.

! ***Making Health Care More Affordable*** — The budget includes tax relief and tax incentives to make health care less costly and to expand health insurance coverage. These tax provisions buttress program initiatives. See *Function 550 (Health)* for details.

Tax credits for long-term care — The President's budget provides eligible people with long-term care needs (e.g., those people unable to do at least three activities of daily living) or their care-givers with a $3,000 refundable tax credit to offset the cost of care. This initiative costs $8.9 billion over five years and $26.9 billion over ten years.

Making health coverage more affordable for workers losing coverage — The budget provides workers and retirees who lose employer-based health insurance with a 25 percent nonrefundable tax credit for their contribution to the purchase of COBRA coverage. This initiative costs $3.3 billion over five years and $10.3 billion over ten years.

! ***Helping Families*** — The budget provides wide-ranging tax relief for families, including reduction of the marriage penalty, expanded child and dependent care credits, and relief from the individual Alternative Minimum Tax (AMT). See *Function 600 (Income Security)* for related material.

Reducing the marriage penalty — The President's budget increases the standard deduction for two-income couples to twice that of single filers, increasing it by more than $2,000 when fully phased in. This provides substantial relief for 9.1 million married couples. The budget also increases the standard deduction for single-income couples by $500 and for single filers by $250. This proposal costs $9.4 over five years and $44.8 billion over ten years. (The changes in the EITC discussed above also reduce the marriage penalty faced by low-income families.)

Expanding the child and dependent care tax credit — The budget makes the Child and Dependent Care Tax Credit refundable for the first time, increases the level of the credit, and extends the credit to families who stay home with their children. This provision costs $7.5 billion over five years and $30.3 billion over ten years.

Alternative Minimum Tax (AMT) relief — The budget corrects design flaws in the individual AMT that would increasingly hurt middle-income families and complicate their tax preparation. When fully phased in, this provision will provide protection to more than 9 million families per year who would otherwise be subject to the AMT at a cost of $4.9 billion over five years and $32.8 billion over ten years.

! ***Promoting Retirement Savings and Security*** — The budget creates new private accounts to help low- and moderate-income workers save for their retirement and includes tax incentives for employers to offer pensions.

Retirement Savings Accounts (RSAs) — Both individuals and married couples can make contributions to investment accounts offered either by their employers or private financial institutions. Their contributions would be matched according to the size of their contribution and their income level. Withdrawals would be allowed before retirement, but only after five years of contributions and only for qualified purposes such as paying for medical care, buying a house, or paying for college. Furthermore, employers of workers receiving the EITC would receive a refundable tax credit for 100 percent of matching payments that they make to the RSAs of those workers. This initiative costs $9.2 billion over five years and $53.8 billion over ten years.

! ***Promoting Energy Efficiency and a Cleaner Environment*** — The budget provides a tax credit for new energy-efficient homes, extends the electric vehicle tax credit, provides a tax credit for hybrid vehicles, and includes other tax initiatives for the environment. Together, these provisions cost $3.9 billion over five years and $8.9 billion over ten years. See *Function 300, (Natural Resources and Environment)* for discussion of environmental policy initiatives.

! ***Encouraging Philanthropy*** **—** The budget allows deductions for charitable contributions by non-itemizing taxpayers and creates other tax incentives to promote philanthropy. Together, these provisions cost $4.3 billion over five years and $13.9 billion over ten years.

Major Revenue Raisers

The President's budget divides revenue increasing measures into two broad categories: explicit revenue offsets and other policy initiatives that have revenue consequences. The former consists largely of the President's policies to limit what he considers unwarranted tax benefits. The latter consists primarily of reinstating Superfund taxes, converting aviation taxes to user fees, increasing tobacco excise taxes, and assessing a fee on tobacco manufacturers who do not achieve youth smoking targets.

! ***Major Revenue Offsets*** **—** *Unwarranted tax benefits of corporate tax shelter transactions* — The President's budget institutes a new initiative to prevent abuse of tax shelters. This initiative includes requiring increased disclosure of certain transactions, modifying penalties for substantial understatement of taxes because of abusive shelters, codifying the economic substance doctrine, taxing income from shelters involving tax-indifferent parties, and imposing a penalty excise tax on certain fees received by shelter promoters. This initiative raises $7.3 billion over five years and $14.5 billion over ten years.

Expanding upon last year's proposals for revenue offsets — The budget contains 80 modifications of tax law that raise revenue to offset the President's tax relief. These provisions increase revenues by $39.8 billion over five years and by $81.2 billion over ten years.

! ***Other Major Policies That Affect Revenues*** **—** *Reinstating Superfund taxes* — The budget reinstates both Superfund excise taxes and the environmental tax on corporate taxable income. These initiatives raise $6.3 billion over five years and $12.9 billion over ten years.

Converting aviation taxes to user fees — The budget changes Airport and Airway Trust Fund taxes to a cost-based user fee system. This provision raises $6.7 billion over five years and $9.0 billion over ten years.

Tobacco policy — The budget raises the excise tax on tobacco products by $0.25 to $0.64 per pack of cigarettes. In addition, revenues are increased due to assessments starting in 2004 that penalize tobacco manufacturers that do not meet targets for reducing teen smoking. These initiatives raise $31.2 billion over five years and $65.9 billion over ten years.

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET
Billions of Dollars

	2000	2001	2002	2003	2004	2005	FiveYears 2001-2005	Ten Years 2006-2010
EXPAND EDUCATION INITIATIVES	**-0.1**	**-0.7**	**-2.4**	**-2.8**	**-3.9**	**-4.4**	**-14.2**	**-39.2**
College opportunity tax cut	0.0	-0.4	-2.0	-2.3	-3.1	-3.3	-11.1	-29.8
Incentives for public school construction and modernization	0.0	-0.0	-0.2	-0.4	-0.7	-1.0	-2.4	-8.0
Expand exclusion for employer-provided education assistance to include graduate education	-0.1	-0.3	-0.1	0.0	0.0	0.0	-0.4	-0.4
Eliminate 60-month limit on student loan interest deduction	0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.4	-0.9
Other: tax relief for participants in certain federal education programs	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1
PROVIDE POVERTY RELIEF AND REVITALIZE COMMUNITIES	**0.0**	**-2.5**	**-3.1**	**-3.9**	**-4.5**	**-5.0**	**-18.9**	**-45.0**
Increase and simplify the Earned Income Tax Credit (EITC)	0.0	-2.3	-2.2	-2.3	-2.3	-2.3	-11.5	-23.6
Increase and index low-income housing tax credit per-capital cap	0.0	-0.0	-0.1	-0.2	-0.3	-0.4	-1.0	-5.7
Provide New Markets Tax Credit	0.0	-0.0	-0.2	-0.5	-0.7	-0.9	-2.4	-5.1
Extend Empowerment Zone (EZ) tax incentives and add EZs	0.0	-0.0	-0.2	-0.3	-0.5	-0.6	-1.6	-4.4
Provide Better American bonds to improve environment	0.0	-0.0	-0.0	-0.1	-0.2	-0.3	-0.7	-3.1
Permanent expensing of brownfields remediation	0.0	0.0	-0.1	-0.2	-0.1	-0.1	-0.5	-1.1
Bridge the Digital Divide	0.0	-0.1	-0.3	-0.3	-0.3	-0.2	-1.2	-2.1
MAKE HEALTH CARE MORE AFFORDABLE	**0.0**	**-0.1**	**-1.4**	**-2.9**	**-4.0**	**-4.8**	**-13.3**	**-41.5**
Revenue effect of long-term care assistance	0.0	-0.1	-1.2	-1.8	-2.6	-3.2	-8.8	-26.9
Encourage COBRA continuation coverage	0.0	0.0	-0.0	-0.9	-1.1	-1.3	-3.3	-10.3
Tax credit for Medicare buy-in	0.0	0.0	-0.0	-0.1	-0.1	-0.2	-0.4	-1.6
Tax relief for workers with disabilities	0.0	-0.0	-0.1	-0.1	-0.2	-0.2	-0.6	-1.5
Tax relief to encourage small business health plans	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.3
Encourage development of vaccines for targeted diseases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0
STRENGTHEN FAMILIES AND IMPROVE WORK INCENTIVES	**0.0**	**-0.4**	**-1.5**	**-2.6**	**-5.0**	**-7.9**	**-17.4**	**-76.5**
Marriage penalty relief and increase standard deduction	0.0	-0.2	-0.8	-1.5	-2.1	-4.6	-9.4	-44.8
Increase, expand and simplify child and dependent care tax credit	0.0	-0.1	-0.6	-0.9	-2.7	-3.1	-7.5	-30.3
Tax incentives for employer-provided child-care	0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.5	-1.4

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET
Billions of Dollars

	2000	2001	2002	2003	2004	2005	Five Years 2001-2005	Ten Years 2006-2010
PROMOTE EXPANDED RETIREMENT SAVINGS	**-0.0**	**0.1**	**-1.0**	**-3.3**	**-4.8**	**-8.0**	**-17.0**	**-77.3**
Establish Retirement Savings Accounts (RSAs)	0.0	0.0	-0.7	-2.2	-2.3	-4.0	-9.2	-53.8
Small business tax credit for automatic contributions for non-highly compensated employees	0.0	0.0	-0.2	-0.6	-1.9	-3.1	-5.8	-15.4
Tax credit for start up and administrative expenses and payroll deduction IRAs	-0.0	-0.0	-0.0	-0.1	-0.1	-0.1	-0.3	-1.3
Provide for the SMART plan	0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.6
Enhance 401(k) SIMPLE plan	0.0	-0.0	-0.1	-0.1	-0.2	-0.2	-0.6	-1.9
Accelerate vesting for qualified plans	0.0	0.2	0.1	0.1	0.1	0.0	0.6	0.1
Other changes affecting retirement savings, security and portability	0.0	-0.1	-0.2	-0.3	-0.4	-0.4	-1.4	-4.4
AMT RELIEF AND TAX LAW SIMPLIFICATION	**-0.2**	**-0.9**	**-1.5**	**-1.8**	**-2.1**	**-2.5**	**-8.7**	**-40.3**
Adjustments for personal exemptions and standard deduction in the individual alternative minimum tax	-0.1	-0.4	-0.5	-1.0	-1.3	-1.6	-4.9	-32.8
Replace support test with residency test for children	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	-1.1
Tax credit to encourage electronic filing of individual returns	0.0	0.0	-0.5	-0.5	-0.5	-0.5	-2.1	-3.3
Simplify, retarget and expand expensing for small business	0.0	-0.2	-0.2	-0.0	-0.1	-0.1	-0.7	-2.0
Other: includes simplification and increase standard deduction for dependent filers, simplification of foreign tax credit limitation for 10/50 companies.	-0.1	-0.2	-0.2	-0.1	-0.1	-0.0	-0.6	-1.1
ENCOURAGE PHILANTHROPY	**0.0**	**-0.6**	**-1.2**	**-0.8**	**-0.9**	**-0.9**	**-4.3**	**-13.9**
Allow deduction for contributions by non-itemizing taxpayers	0.0	-0.5	-1.1	-0.7	-0.8	-0.8	-3.9	-13.0
Simplify and reduce excise tax on foundation investment income	0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
Other: increase limit on charitable donations of appreciated property and clarify public charity status of donor advised funds	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.2
PROMOTE ENERGY EFFICIENCY AND IMPROVE THE ENVIRONMENT	**0.0**	**-0.2**	**-0.4**	**-0.7**	**-1.2**	**-1.6**	**-4.0**	**-9.3**
Tax credit for new energy-efficient homes	0.0	-0.1	-0.2	-0.2	-0.1	-0.1	-0.6	-0.7
Extend and expand electric vehicle tax credit	0.0	0.0	-0.0	-0.2	-0.7	-1.2	-2.1	-5.9
Extend and modify tax credit for electricity from certain sources	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-1.0	-2.1
Other: tax credit for energy-efficient building equipment, 15-year depreciable life for distributed power property, tax credit for solar energy systems	0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.6
MODIFICATION OF INTERNATIONAL TRADE PROVISIONS	**-0.0**	**-0.5**	**-0.8**	**-0.9**	**-0.8**	**-0.2**	**-3.2**	**-8.2**
Extend and modify Puerto Rico economic-activity tax credit	0.0	-0.0	-0.1	-0.1	-0.1	-0.2	-0.5	-5.6
Extend GSP and modify other trade provisions	-0.0	-0.5	-0.9	-0.9	-0.9	-0.2	-3.4	-4.1
Levy tariff on certain textiles/apparel from CNMI	0.0	0.0	0.2	0.2	0.2	0.2	0.7	1.5
TOTAL GROSS TAX RELIEF INCLUDING REFUNDABLE TAX CREDITS	**-0.2**	**-5.9**	**-13.4**	**-19.8**	**-27.4**	**-35.3**	**-101.7**	**-351.4**

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET
Billions of Dollars

	2000	2001	2002	2003	2004	2005	Five Years 2001-2005	Ten Years 2006-2010
OFFSETS FOR TAX RELIEF PROVISIONS:	**0.2**	**5.9**	**9.2**	**9.7**	**10.7**	**11.7**	**47.2**	**95.6**
(Eliminate tax benefits the President considers unwarranted)	**0.0**	**2.3**	**2.0**	**2.0**	**2.1**	**2.2**	**10.7**	**22.9**
Limit benefit of corporate tax shelter transactions:	0.0	1.9	1.4	1.4	1.4	1.4	7.3	14.5
Modify treatment of ESOP as S corporations shareholder	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.9
Prevent mismatching of deductions and income in transactions with related foreign persons	0.0	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Modify Corporate-owned-life-insurance rules	0.0	0.2	0.3	0.4	0.5	0.5	2.0	5.3
Other reductions in corporate tax shelters and interactions	0.0	0.2	0.1	0.1	0.1	0.1	0.6	1.0
(Other revenue measures)	**0.1**	**3.5**	**7.2**	**7.6**	**8.6**	**9.5**	**36.4**	**72.8**
Treat receipt of tracking stock in certain distributions and exchanges as the receipt of property	0.0	0.1	0.2	0.2	0.1	0.2	0.7	1.5
Allow RICs a dividend paid deduction for redemptions only in cases where redemption represents a contraction in the RIC	0.0	0.1	0.5	0.5	0.4	0.4	1.9	3.7
Deny deduction for punitive damages	0.0	0.1	0.1	0.1	0.1	0.2	0.7	1.5
Repeal lower-of-cost-or-market inventory accounting method	0.0	0.5	0.4	0.4	0.4	0.2	1.8	2.1
Provide consistent amortization periods for intangibles	0.0	-0.2	-0.2	0.0	0.3	0.4	0.3	1.8
Require recapture of policyholder surplus accounts	0.0	0.1	0.2	0.3	0.5	0.8	1.8	2.2
Modify rules for capitalizing policy acquisition costs of life insurance companies	0.0	0.5	1.8	2.2	2.4	1.3	8.3	11.8
Subject investment income of trade associations to tax	0.0	0.2	0.3	0.3	0.3	0.4	1.5	3.6
Restore phaseout of unified credit for large estates	0.0	0.0	0.1	0.1	0.1	0.1	0.4	1.1
Conform treatment of surviving spouses in community property States	0.0	0.0	0.0	0.1	0.1	0.1	0.3	1.1
Eliminate non-business valuation discounts	0.0	0.3	0.6	0.6	0.6	0.6	2.7	6.1
Limit pre-funding of welfare benefits for 10 or more employer plans	0.0	0.1	0.2	0.2	0.2	0.2	0.7	1.4
Modify deposit requirement for FUTA	0.0	0.0	0.0	0.0	0.0	1.6	1.6	1.9
Reinstate Oil Spill Liability Trust Fund tax	0.0	0.0	0.3	0.3	0.3	0.3	1.0	2.4
Repeal percentage depletion for non-fuel minerals mined on federal and formerly federal lands	0.0	0.1	0.1	0.1	0.1	0.1	0.5	1.0
Modify treatment of build-in losses and other attributes trafficking	0.0	0.1	0.1	0.1	0.2	0.2	0.7	1.6
Prevent avoidance of tax on U.S.-accrued gains (expatriation)	0.0	0.0	0.1	0.1	0.2	0.2	0.6	3.0
Replace sales-source rules	0.0	0.3	0.6	0.6	0.6	0.7	2.8	6.7
Modify rules relating to foreign oil gas extraction income	0.0	0.0	0.1	0.1	0.1	0.1	0.4	1.1
Miscellaneous other provisions	0.1	1.3	1.9	1.5	1.6	1.6	7.8	17.1
NET TAX RELIEF INCLUDING REFUNDABLE CREDITS	**-0.1**	**-0.0**	**-4.2**	**-10.1**	**-16.7**	**-23.6**	**-54.6**	**-255.7**

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET
Billions of Dollars

	2000	2001	2002	2003	2004	2005	Five Years 2001-2005	Ten Years 2006-2010
OTHER POLICIES AFFECTING RECEIPTS	**0.6**	**9.1**	**5.2**	**5.5**	**12.3**	**12.1**	**44.2**	**85.2**
Reinstate Superfund tax on corporate taxable income	0.0	0.7	0.4	0.4	0.4	0.4	2.5	4.9
Reinstate Superfund excise taxes	0.2	0.7	0.8	0.8	0.8	0.8	3.8	8.0
Convert Airport and Airway Trust Fund taxes to a cost-based user fee system	0.0	0.7	1.4	1.5	1.5	1.5	6.7	9.0
Increase excise tax on tobacco and levy youth smoking assessment on tobacco manufacturers	0.4	4.1	3.7	3.5	10.1	9.7	31.2	65.9
Extend abandoned mine reclamation fees	0.0	0.0	0.0	0.0	0.0	0.2	0.2	1.3
Replace Harbor Maintenance tax with Harbor Services User Fee	0.0	-0.5	-0.6	-0.6	-0.7	-0.7	-3.2	-7.6
Roll back federal employee retirement contributions	0.0	-0.4	-0.6	-0.2	0.0	0.0	-1.2	-1.2
Other miscellaneous provisions	0.0	3.8	0.1	0.1	0.1	0.1	4.2	4.8
TOTAL EFFECT OF REVENUE PROPOSALS	**0.5**	**9.1**	**1.0**	**-4.6**	**-4.4**	**-11.5**	**-10.4**	**-170.5**

Revenue Trends

This year, income, payroll, corporate, and all other federal taxes equal an estimated 20.4 percent of gross domestic product (GDP), half a percentage point below their peak in World War II. By 2005, the President's budget reduces receipts as a share of the economy to its level at the beginning of the 1980s.

The high level of revenues relative to the economy has been portrayed incorrectly as evidence of high tax burdens for the typical American family. In fact, the current level of revenues results from unusually rapid income growth for affluent taxpayers who pay higher rates. Research by the Congressional Budget Office (CBO), the Joint Committee on Taxation (JCT), and the Treasury shows that tax burdens for the vast majority of families actually have fallen during the last decade.

According to a July 1999 analysis by CBO, the total federal tax rate faced by the bottom three fifths of the income distribution has declined since 1993, and the effective tax rate for the next highest fifth is unchanged. If one looks only at income taxes, the effective tax rates have fallen for all but the top fifth of the income distribution. In fact, effective income tax rates of the bottom 80 percent are lower than they were in the early 1980s after the Reagan tax cuts. Former CBO Director O'Neill confirmed these trends in 1998 testimony, saying that the rise in receipts relative to GDP was "mainly because realization of capital gains were unusually high and because a larger share of income was earned by people at the top of the income ladder, who are taxed at higher rates."

Analysis by the JCT tells a similar story. The JCT data show that federal taxes on a family with income between $30,000 and $40,000 declined from 17.3 percent in 1995 to 16.1 percent in 1999. For a family with income between $40,000 and $50,000, the federal tax rate fell from 19.3 percent to 17.5 percent over the same period.

The Treasury's analysis focuses on families of four. This research calculates that the median family of four, with annual income of $54,900 in 1999, has seen their average federal income tax rate fall from a peak of 11.8 percent in 1981 to 7.5 percent in 1999. If one includes payroll taxes, such families have seen their total federal tax rate fall from a peak of 18.4 percent in 1981 to 15.1 percent in 1999, with half the decline occurring during the 1990s.

Families of four with half the median income and those with twice the median income experienced similar declines in their tax burdens according to the Treasury research. For instance, the total federal tax rate for a family of four with yearly income of $27,450 in 1999 (half the median income) stands at its lowest level since 1965. The total federal tax rate for a family of four with yearly income of $109,800 in 1999 has declined to 19.6 percent from its 20.3 percent level in 1991.

Major Changes in Medicare, Medicaid, and the State Children's Health Insurance Program (S-CHIP) in the 2001 Budget

President Clinton's 2001 budget includes major changes in Medicare, Medicaid, and the State Children's Health Insurance Program (S-CHIP). Overall, the budget increases spending for these programs by a net of $39.8 billion over five years (2001-2005) relative to a projected baseline of current law, and increases projected spending by a net of $188.6 billion over ten years (2001-2010).

Medicare

Overall Medicare — The budget increases projected net spending for Medicare-related initiatives by $22.3 billion over five years (2001-2005) relative to a projected baseline of current law, and by a net of $98.2 billion over ten years (2001-2010).

Budget Increases for Medicare-related Initiatives — The budget increases projected spending for Medicare-related initiatives by a gross of $40.8 billion over five years (2001-2005) relative to a projected baseline of current law, and increases projected spending by a gross of $168.2 billion over ten years (2001-2010). These projected gross increases primarily include the outpatient prescription drug benefit for all Medicare beneficiaries and the access to health insurance afforded by the Medicare buy-in option.

Budget Decreases for Medicare-related Initiatives — The budget decreases projected spending for Medicare-related initiatives by a gross of $18.5 billion over five years (2001-2005), and decreases projected spending by a gross of $70.0 billion over ten years (2001-2010). Examples of cuts included in the projected decreases in gross spending include: (1) modernization of both fee-for-service and managed care options in Medicare; (2) cuts in provider payments such as an extension of the update cuts contained in the Balanced Budget Act of 1997; and (3) reductions in beneficiary cost sharing requirements.

Medicaid and the State Children's Health Insurance Program (S-CHIP)

Overall Medicaid and S-CHIP — The budget increases projected net spending for Medicaid and S-CHIP by $17.5 billion over five years (2001-2005) relative to a projected baseline of current law, and by a net of $90.5 billion over ten years (2001-2010).

Budget Increases for Medicaid and S-CHIP — The budget increases projected spending for Medicaid and S-CHIP by a gross of $19.9 billion over five years (2001-2005) relative to a projected baseline of current law, and increases projected spending by a gross of $96.1 billion over ten years (2001-2010). These projected gross increases reflect the initiatives such as the expansion of family coverage, greater outreach opportunities, and restoration of benefits to certain legal immigrants. These figures do not include the Medicaid effects of the Medicare initiatives. Those figures are included in the totals for Medicare-related initiatives.

Budget Decreases for Medicaid — The budget decreases projected spending for Medicaid by a gross of $2.4 billion over five years (2001-2005) relative to a projected baseline of current law, and by a gross of $5.6 billion over ten years (2001-2010). These reductions reflect the cuts in Medicaid administrative costs and the imposition of rebate requirements on generic drug manufacturers. There are no S-CHIP cuts in the budget.

Additional detailed information about the effects of the budget on these programs is in the functional analysis portion of the document in *Function 550 (Health)* and *Function 570 (Medicare)*.

Summary of Major Medicare, Medicaid, and State Children's Health Insurance Program (S-CHIP) Changes in the 2001 Budget

(dollars in billions)

	Totals 2001- 2005	Totals 2001-2010
Medicare:		
President's Medicare Reform Plan:		
Prescription Drug Benefit, Medicare Buy-in, and other initiatives	40.8	168.2
Fee-for-service modernization, Competitive Defined Benefit, and other savings	-14.1	-62.1
Other initiatives, offsets, and interactions	-4.4	-7.9
TOTAL Medicare proposals	22.3	98.2
Medicaid/S-CHIP:		
Family coverage Medicaid/S-CHIP initiative	13.8	76.0
Benefits for legal immigrant children, pregnant women, and the disabled	1.2	6.5
Other initiatives (accelerating S-CHIP/Medicaid children, etc.)	4.9	13.6
Other offsets (cost allocation, generic drugs, etc.)	-2.4	-5.6
TOTAL Medicaid/S-CHIP proposals	17.5	90.5
TOTAL Health Proposals	39.8	188.6

Source: The Budget, FY2001, Table S-4

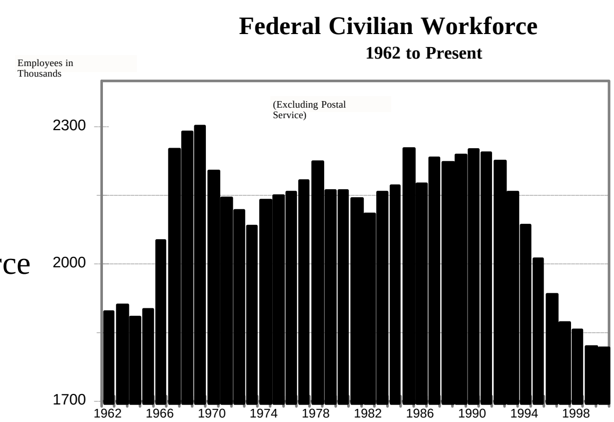
Civilian and Military Pay and Retirement

President Clinton's budget includes pay raises for federal employees and military personnel, repeals delayed pay dates for military and civilian employees, repeals increased employee contributions to retirement plans, and allows federal employees to pay health insurance premiums with pre-tax income. The budget also offers government-wide buyout incentives and long-term care insurance for federal employees and allows immediate participation in the Thrift Savings Plan (TSP) for new and rehired federal employees.

- ***Federal Employees Pay Raise*** — The budget increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.

- ***Repeal of Delay in Military and Civilian Pay Day*** — The budget repeals the provision included in the Omnibus Consolidated Appropriations Act of 2000 that delayed pay dates for all military and federal civilian employees who are scheduled to be paid on September 29 or September 30, 2000, to October 1, 2000. The budget restores the pay date to its original schedule, shifting approximately $4.3 billion in spending from 2001 back to 2000.

- ***Repeal of Increased Employee Contribution to Retirement Plans*** — The budget repeals a 1997 provision that increased employee payroll contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for all federal employees beginning in January 1999. The higher contribution rates expire on January 1, 2003, and return to the levels that were in effect on January 1997. The budget restores the employee contribution rates to the lower 1997 levels, reducing revenues by $1.2 billion dollars over 2001 through 2003.



- ***Federal Workforce*** — The Administration has cut the size of the federal civilian workforce by 377,000 employees (250,000 in DoD civilian employees), exceeding the goal of cutting 272,000 federal positions set by the Federal Workforce Restructuring Act. The federal government had 1.8 million civilian employees in 1999, making it the smallest federal workforce in 40 years and, as a share of the nation's total workforce, the smallest since 1960.

- ***Buyouts* —** The budget allows agencies to offer government-wide voluntary separation incentives of up to $25,000 to support continuing agency downsizing efforts. Currently, buyout authority is available on an as-needed basis to any federal agency that is downsizing or restructuring, as is the case with DoD, the Department of Energy, and the Department of Veterans Affairs.

- ***Long-term Care Insurance* —** The budget makes private long-term care insurance available at negotiated group rates to federal employees, retirees, and qualifying family members. The Office of Personnel Management (OPM) anticipates long-term care policies being available to the federal community at 15 to 20 percent below private insurance rates.

- ***Thrift Savings Plan (TSP)* —** The budget allows immediate participation in the Thrift Savings Plan (TSP) by new federal employees, and also permits employees to roll over funds from private sector retirement plans into their TSP accounts. Under current law, new or rehired federal employees must wait six to twelve months before contributing to the TSP and there is no rollover provision.

- ***Federal Employees Health Benefits program (FEHBP)* —** The budget allows federal employees to pay their annual health insurance premiums with before-tax wages. The budget also instructs OPM to work harder to control the growth of FEHBP premiums by leveraging the purchase power of the federal government in order to enable OPM to offer improved dental benefits. The budget provides to federal employees the same coverage for mental and substance abuse as for any other health condition and continues the requirement that the FEHBP plans offer contraceptive coverage.

- ***Other* —** The budget includes provisions to correct retirement coverage errors, make various improvements in human resources management, and eliminate certain retirement inequities.

Strengthening the Farm Safety Net

President Clinton's budget makes significant enhancements to the farm safety net through a supplementary income assistance program, increased conservation benefits, improved risk management, and expanded economic opportunities for farms and rural areas. The budget provides an additional $4.1 billion for the farm safety net proposal in 2001 ($10.4 billion over five years). Through the passage of income assistance legislation as well as administrative actions by the Secretary of Agriculture, the farm safety net proposal increases spending by $940 million in 2000.

The farm safety net initiative costs $11.5 billion over three years. It is a three-year program because Congress is scheduled to reconsider these issues when the Farm Bill expires in 2002. Therefore, cost projections of certain portions of the initiative are available over five or ten years, but others are only available through 2002. In addition, not all elements of the plan (such as actions by the Secretary authorized under current law) require legislation. These elements have been incorporated into the baseline cost estimates.

Enhancing the Farm Safety Net

$6.9 billion	supplementary income assistance program
$2.7 billion	increased conservation benefits
$1.3 billion	improved risk management
$0.6 billion	expanded economic opportunities for farms and rural areas
$11.5 billion	

The explosion of emergency spending for agriculture in recent years illustrates the need to support farmers in a more stable and better targeted way. The policy changes and funding increases in the President's budget will allow farmers to plan more effectively than when they must rely on ad hoc supplemental appropriations. The Farm Safety Net Initiative also sets in place a reasonable structure for reform when the Farm Bill expires in 2002. The proposal is designed to minimize the need for continued costly and ineffectively targeted supplemental assistance, such as the nearly $15 billion in emergency farm assistance that Congress provided the last two years. The continuing farm economic crisis is caused by low prices, weakened exports, and losses from natural disasters. The Administration's initiative lays the basis for more permanent and effective assistance at less cost. Major components of the overall initiative are described below.

Farm Income

! ***Supplementary Income Assistance Program*** — The budget provides supplemental income assistance payments for the 2000 and 2001 crop years to eligible producers of wheat, feed grains, rice, upland cotton, and oilseeds. The payments will be made only if projected gross income, including other government payments, for the crop falls below 92 percent of the preceding five-year average. The supplementary payments will be crop specific and will be based on actual production rather than an historical base. The payments will be limited to $30,000 per producer for the total of these supplementary payments plus Agricultural Market Transition Act (AMTA) contract payments. The program will provide payments of $600 million in fiscal year 2000 and about $2.5 billion per year in 2001 and 2002.

! ***Additional Farm Income Initiatives*** — Other initiatives to improve the farm safety net include the extension of the Dairy Price Support Program, a freeze of the maximum authorized marketing assistance loan rates for the 2000 crop, and a new on-farm storage loan program.

Conservation

! ***Conservation Security Program*** — The Farm Safety Net initiative provides $600 million for a new Conservation Security Program, which would provide annual payments to farmers and ranchers who implement conservation practices such as conservation tillage, proper grazing use, buffers, and irrigation water management.

! ***Ongoing Conservation*** — The budget includes increases of $700 million for five ongoing conservation programs: the Wetlands Reserve Program (WRP), the Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), the Farmland Protection Program (FPP), and the Wildlife Habitat Incentives Program (WHIP).

Risk Management

! ***Crop Insurance*** — The budget extends the premium discount on buy-up coverage that was available in 1999 and 2000. It also provides for multi-year coverage so that farmers with production losses and price declines that extend over several years will not be driven out of the program.

! ***Improving Coverage*** — The new initiative will establish a pilot program for insuring livestock that will be similar to the program offered dairy producers under the Dairy Options Pilot Program. It will also improve coverage provided by the non-insured assistance program by replacing the area-wide loss trigger with a disaster declaration. This will especially benefit producers of specialty crops.

Economic Opportunity

! ***Empowerment Zones and Enterprise Communities (EZ/EC)*** — The budget provides $15 million in mandatory funding for round II Empowerment Zones and Enterprise Communities. The EZ/EC's received $15 million in appropriated funding for 1999 and 2000, but the multi-year mandatory funding will allow recipients greater assurance of funding for strategic planning. This will cost $116 million over ten years.

! ***Cooperative Development Program (CDP)*** — A new Cooperative Development Program will provide equity capital for new livestock and other processing cooperatives, addressing concerns about concentration in agricultural industries and providing the opportunity for farmers to enhance prices received for their products.

! ***Biofuels*** — The budget provides up to $100 million in mandatory spending in 2000 and up to $150 million in 2001 and 2002 for incentive payments to bioenergy producers to expand production of biobased fuels.

See *Function 300 (Natural Resources and the Environment)* and *Function 450 (Community and Regional Development)* for more information about programs in the President's Farm Safety Net Initiative.

Farm Safety Net Initiatives

Program Level
(dollars in millions)

	Increase in 2000	Increase in 2001	00-02 Total
Farm Income:			
Freeze 2000 Crop Loan Rates	20	500	530
Supplementary Income Assistance	600	2,464	5,599
Dairy Price Support Extension	0	150	300
On-Farm Storage	350	150	500
Total, Farm Income	**970**	**3,264**	**6,929**
Risk Management:			
Premium Discount	0	640	640
Risk Management Education	0	40	65
Multi-Year Coverage	0	100	100
Research & Development	0	30	60
Non-Insured Assistance Program	110	110	220
Livestock Insurance Pilot	0	100	200
Total, Risk Management	**110**	**1,020**	**1,285**
Conservation Programs:			
Wetlands Reserve Program	0	213	472
Conservation Reserve Program (CRP)	0	a/	21
CRP Continuous Signup Bonuses	100	125	350
Conservation Security Program	0	600	1,200
Env. Quality Incentives Program (EQIP)	0	125	250
Farmland Protection Program	0	65	130
Wildlife Habitat Incentives Program	0	50	100
Technical Assistance/Other	0	110	214
Total, Conservation Programs	**100**	**1,288**	**2,737**
Economic Opportunity:			
Empowerment Zones and Enterprise Communities (EZ/ECs)	0	15	30
Cooperative Development	0	80	130
Bioenergy Incentives	100	150	400
Total, Economic Opportunity	**100**	**245**	**560**
Total, Farm Safety Net	**1,280**	**5,817**	**11,511**

a/ Rental payments on CRP acres are made in the subsequent fiscal year.

Source: USDA 2001 Budget Summary

Economic Assumptions

The Administration's Forecast

The President's budget is based on a mainstream economic forecast similar to those of the Congressional Budget Office (CBO) and the average forecast of the 60 private-sector forecasters surveyed by Blue Chip Economic Indicators. (See table at end of section.) The Office of Management and Budget (OMB) believes that its economic forecast is cautious and that the economy will outperform the forecast if prudent policies of fiscal restraint continue. Thus, OMB has not built any of the economic benefits of the debt reduction inherent in its budget into its forecast. If it had, economic growth would be higher and interest rates lower, though it is difficult to know by how much.

Like CBO and the Blue Chip forecasts, OMB assumes that real (inflation-adjusted) economic growth will slow from the rapid 4.3 percent pace averaged over the last four years. All three forecasts have the economy reverting to a long-run sustainable rate of growth of slightly less than 3.0 percent per year. All three also agree that the inflation and unemployment rates will rise slightly to about 2.5 percent and 5.0 percent, respectively. OMB believes that interest rates will be slightly higher than in the CBO and Blue Chip forecasts, but all three believe that rates will diverge little from current levels.

The Record Economic Expansion

This month, the current economic expansion became the longest in our nation's history. Various factors have contributed to the economy's sustained strength, most notably simultaneous technological advances in a number of fields. However, responsible fiscal policy that turned endless deficits into surpluses has played a crucial role.

In 1990, a Democratic Congress took the first serious step to eliminate the deficit and stop the accumulation of debt. The Budget Summit Agreement of 1990 passed with the votes of only 47 Republican House Members and none of the current Republican leadership. In 1993, the second major effort to repair the government's finances, the Omnibus Budget and Reconciliation Act, passed without a single Republican vote in either the House or the Senate. At the time, Republicans proclaimed that the package would sink the economy; these predictions could not have been more wrong. Finally, in 1997, Republicans negotiated a budget framework with the President and Congressional Democrats, thus closing the era of fiscal profligacy.

These fiscal achievements are removing the weight of government financing requirements from capital markets, thereby making an essential contribution to this investment-led expansion. Real (inflation-adjusted) business investment has advanced at more than a ten percent annual rate over the last five years, the fastest sustained growth of new plant and equipment on record. This has boosted productivity growth to its fastest pace since the economy was recovering from the deep 1982 recession, when unemployment peaked at almost 11 percent. With that exception, we have not enjoyed such rapid productivity growth since the 1960s.

Rapid productivity growth has enabled the economy to grow quickly without inflation, setting records along the way. Since President Clinton first took office, 20.8 million jobs have been created. Ninety-two percent of these jobs are in the private sector, the highest percentage since President Truman presided over the demobilization from World War II.

The unemployment rate has fallen to 4.0 percent, its lowest level in 30 years. The jobless rate has been at or below 5.0 percent for 34 months and below 6.0 percent for over five years. This is well below the 7.3 percent jobless level when President Bush left office and the 7.6 percent averaged during the Reagan years.

African-American and Hispanic unemployment rates are the lowest on record. The jobless rate for African Americans has fallen from 14.2 percent in 1992 to a record low 8.2 percent last month. The unemployment rate for Hispanics has fallen from 11.6 percent in 1992 to 5.6 percent last month, also a record.

Strong investment and productivity growth have meant that tight labor markets have not sparked inflation. In fact, inflation remains virtually non-existent. So-called "core" inflation (consumer prices excluding volatile food and energy items) was only 1.9 percent last year, its lowest rate since 1965. A broader measure of inflation, the GDP price index, rose only 1.4 percent last year, and for the last two years, posted the smallest back-to-back increases since 1963.

Strong productivity growth also has boosted the growth of real wages to its best pace in three decades. In the last 12 months, average hourly earnings have risen 3.7 percent, well ahead of inflation. Wages have grown faster than inflation for the last five consecutive years, the longest sustained advance since the 1960s. Since 1993, real wages are up 6.6 percent, after *declining* 4.3 percent during the Reagan and Bush years.

In the past seven years, 7.2 million people have left welfare, a 51 percent decline. Welfare recipients now account for the lowest percentage of the U.S. population since 1967. Meanwhile, 1.5 million people who were on welfare in 1997 are now working.

From 1993 to 1998, the number of poor people in American declined by 4.8 million, and there are 2.1 million fewer poor children. The poverty rate has declined sharply, from 15.1 percent to 12.7 percent, the lowest it has been since 1979.

Responsible fiscal policy was an essential ingredient in achieving the best economy in three decades. The strong economy, in turn, has improved the government's finances to the point that

OMB and CBO now project budget surpluses for the next decade. These surpluses present an opportunity to pay down the public debt built up during the Reagan and Bush years, and President Clinton has responded by putting forth a budget that will completely extinguish that debt in 13 years.

Economists of virtually all political persuasions, including Federal Reserve Chairman Greenspan, argue that paying down the public debt is a crucial way to prepare for the fiscal challenges facing Social Security and Medicare after 2010. The hard work of Democrats has made it possible to pay down debt while simultaneously providing targeted tax relief and funding essential investments in health care, education, defense, the environment, and scientific research.

Comparison of Economic Projections

	2000	2001	2002	2003	2004	2005	Avg. 2001-2005	Avg. 2001-2010
Gross Domestic Product (GDP), percent change								
OMB	4.9	4.9	4.6	4.6	4.9	5.1	4.8	4.8
CBO	5.0	4.8	4.5	4.3	4.3	4.4	4.5	4.5
Blue Chip	5.3	4.9	4.9	4.8	5.0	5.0	5.0	5.0
Real (GDP), percent change								
OMB	3.3	2.7	2.5	2.5	2.8	3.0	2.7	2.7
CBO	3.3	3.1	2.8	2.6	2.6	2.7	2.8	2.8
Blue Chip	3.2	2.9	2.7	2.8	3.0	2.9	2.9	2.8
Consumer Price Index, percent change								
OMB	2.6	2.4	2.6	2.6	2.6	2.6	2.6	2.6
CBO	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Blue Chip	2.5	2.6	2.6	2.5	2.4	2.5	2.5	2.5
Unemployment Rate, percent								
OMB	4.2	4.5	5.0	5.2	5.2	5.2	5.0	5.1
CBO	4.1	4.2	4.4	4.7	4.8	5.0	4.6	4.9
Blue Chip	4.1	4.3	4.8	4.9	4.8	4.8	4.7	4.8
3-Month Treasury Bill Rate, percent								
OMB	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
CBO	5.4	5.6	5.3	4.9	4.8	4.8	5.1	4.9
Blue Chip	5.6	5.7	5.0	5.0	4.8	4.8	5.1	5.0
10-Year Treasury Bond Rate, percent								
OMB	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
CBO	6.3	6.4	6.1	5.8	5.7	5.7	5.9	5.8
Blue Chip	6.4	6.4	5.8	5.8	5.7	5.7	5.9	5.8

PRESIDENT'S 2001 BUDGET REQUEST: DISCRETIONARY SPENDING

(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY01-2005
050: DEFENSE							
Budget Authority	294.1	306.3	310.1	316.4	324.1	332.4	1589.2
Outlays	291.2	292.1	299.2	308.2	317.2	331.4	1548.1
150: INTERNATIONAL AFFAIRS							
Budget Authority	23.9	22.8	23.2	23.5	24.1	24.6	118.1
Outlays	21.8	23.7	22.8	23.0	23.2	23.6	116.3
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY							
Budget Authority	19.2	20.8	21.2	21.5	22.1	22.5	108.0
Outlays	18.8	19.6	20.5	21.1	21.6	22.1	104.9
270: ENERGY							
Budget Authority	2.6	2.9	3.3	3.1	3.2	3.3	16.0
Outlays	2.8	3.1	3.3	3.3	3.3	3.3	16.3
300: NATURAL RESOURCES AND ENVIRONMENT							
Budget Authority	24.0	24.9	25.1	25.4	26.0	26.5	127.8
Outlays	24.0	24.6	25.0	25.1	25.3	25.7	125.7
350: AGRICULTURE							
Budget Authority	4.5	4.6	4.6	4.5	4.7	4.7	23.1
Outlays	5.2	4.8	4.7	4.6	4.7	4.8	23.5
370: COMMERCE AND HOUSING CREDIT							
Budget Authority	7.2	3.5	3.3	3.3	3.2	3.3	16.5
Outlays	7.2	3.8	3.2	3.3	3.3	3.3	16.8
400: TRANSPORTATION							
Budget Authority	13.3	14.5	14.5	15.0	15.6	16.3	75.9
Outlays	44.3	47.5	49.5	50.5	52.0	53.3	252.6
450: COMMUNITY AND REGIONAL DEVELOPMENT							
Budget Authority	11.5	12.3	12.3	12.5	12.8	13.1	63.0
Outlays	11.6	10.9	11.0	10.5	10.7	10.3	53.4
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
Budget Authority	44.4	61.5	61.6	62.3	63.4	64.6	313.4
Outlays	52.2	54.9	59.9	61.5	62.6	63.6	302.6
550: HEALTH							
Budget Authority	33.8	35.0	34.8	35.2	36.1	36.8	177.9
Outlays	31.0	33.3	34.9	35.0	35.5	36.2	174.9
570: MEDICARE							
Budget Authority	3.1	3.0	3.0	3.0	3.1	3.2	15.2
Outlays	3.0	3.0	3.0	3.0	3.1	3.2	15.2
600: INCOME SECURITY							
Budget Authority	29.8	41.3	41.3	41.8	42.9	43.8	211.2
Outlays	41.7	44.2	45.0	46.0	47.1	47.9	230.2
650: SOCIAL SECURITY							
Budget Authority	3.2	3.5	3.5	3.5	3.6	3.7	17.6
Outlays	3.3	3.6	3.6	3.5	3.6	3.6	17.9
700: VETERANS BENEFITS AND SERVICES							
Budget Authority	20.9	22.1	22.1	22.3	22.9	23.4	112.7
Outlays	19.9	22.3	22.1	22.3	22.8	23.3	112.8
750: ADMINISTRATION OF JUSTICE							
Budget Authority	26.6	29.0	30.0	30.1	30.3	30.9	150.3
Outlays	25.3	29.9	29.9	30.4	30.6	31.0	151.8
800: GENERAL GOVERNMENT							
Budget Authority	12.6	14.7	14.5	14.6	14.8	15.0	73.6
Outlays	13.3	14.0	14.1	14.5	14.9	15.0	72.5
900: NET INTEREST							
Budget Authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
920: ALLOWANCES							
Budget Authority	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-1.4
Outlays	0.8	-1.0	-0.2	-0.3	-0.3	-0.3	-2.2
950: UNDISTRIBUTED OFFSETTING RECEIPTS							
Budget Authority	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
Outlays	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0

10-Feb-2000

PRESIDENT'S 2001 BUDGET REQUEST: MANDATORY SPENDING
(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY01-2005
050: DEFENSE							
Budget Authority	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7	-3.8
Outlays	-0.5	-0.9	-0.8	-0.8	-0.7	-0.7	-3.9
150: INTERNATIONAL AFFAIRS							
Budget Authority	-3.3	-1.3	-0.8	-0.7	-0.8	-0.6	-4.1
Outlays	-4.8	-4.1	-3.7	-3.7	-3.7	-3.7	-19.0
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY							
Budget Authority	0.1	0.1	0.0	0.0	0.0	0.0	0.2
Outlays	0.1	0.1	0.0	0.0	0.0	0.0	0.2
270: ENERGY							
Budget Authority	-4.4	-3.9	-3.9	-3.6	-4.1	-4.0	-19.5
Outlays	-4.5	-3.8	-3.9	-3.7	-4.0	-4.0	-19.4
300: NATURAL RESOURCES AND ENVIRONMENT							
Budget Authority	0.3	1.0	1.2	0.7	0.7	0.7	4.3
Outlays	0.5	0.4	0.7	0.4	0.5	0.5	2.4
350: AGRICULTURE							
Budget Authority	27.5	18.0	12.9	9.0	7.7	6.8	54.5
Outlays	26.8	17.6	13.1	9.7	7.6	6.6	54.7
370: COMMERCE AND HOUSING CREDIT							
Budget Authority	2.9	7.3	2.3	1.7	0.8	1.2	13.4
Outlays	-1.6	-0.9	-1.1	-1.6	-1.4	-0.8	-5.8
400: TRANSPORTATION							
Budget Authority	40.4	44.2	41.0	42.0	42.9	43.8	213.9
Outlays	2.4	2.1	1.6	2.0	1.9	1.9	9.5
450: COMMUNITY AND REGIONAL DEVELOPMENT							
Budget Authority	-0.3	-0.1	1.6	0.1	0.5	0.1	2.2
Outlays	-0.5	-0.7	-0.7	-0.7	-0.8	-0.9	-3.9
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
Budget Authority	11.2	12.1	14.0	15.6	16.4	17.6	75.6
Outlays	11.2	12.6	13.7	15.4	16.0	17.0	74.7
550: HEALTH							
Budget Authority	124.8	135.7	146.4	160.3	175.4	191.9	809.6
Outlays	123.3	133.4	146.0	160.3	175.6	191.2	806.6
570: MEDICARE							
Budget Authority	203.2	217.2	226.3	239.4	261.6	283.6	1228.2
Outlays	199.5	217.6	226.3	239.2	261.9	283.5	1228.5
600: INCOME SECURITY							
Budget Authority	213.7	222.3	236.7	247.8	258.8	270.8	1236.4
Outlays	209.5	217.5	232.3	244.1	255.8	268.1	1217.7
650: SOCIAL SECURITY							
Budget Authority	404.9	423.5	444.5	467.0	491.6	518.4	2345.1
Outlays	403.3	422.2	443.0	465.4	489.8	516.4	2336.8
700: VETERANS BENEFITS AND SERVICES							
Budget Authority	26.5	24.1	27.1	28.7	29.9	31.2	141.0
Outlays	26.9	24.1	27.1	28.7	29.9	32.9	142.7
750: ADMINISTRATION OF JUSTICE							
Budget Authority	0.8	1.4	0.7	0.7	0.7	0.7	4.3
Outlays	1.5	1.5	0.8	0.7	0.7	0.6	4.3
800: GENERAL GOVERNMENT							
Budget Authority	1.5	1.4	1.7	1.8	1.8	1.8	8.5
Outlays	1.8	1.4	1.7	1.7	2.0	1.8	8.6
900: NET INTEREST							
Budget Authority	220.3	208.3	198.6	189.3	177.5	163.8	937.5
Outlays	220.3	208.3	198.6	189.3	177.5	163.8	937.5
920: ALLOWANCES							
Budget Authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
950: UNDISTRIBUTED OFFSETTING RECEIPTS							
Budget Authority	-43.1	-45.4	-48.8	-47.0	-46.6	-48.3	-236.1
Outlays	-43.1	-45.4	-48.8	-47.0	-46.6	-48.3	-236.1

10-Feb-2000

PRESIDENT'S 2001 BUDGET REQUEST: TOTAL SPENDING

(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY00-2005
050: DEFENSE							
Budget Authority	293.3	305.4	309.2	315.6	323.4	331.7	1585.4
Outlays	290.6	291.2	298.4	307.4	316.5	330.7	1544.2
150: INTERNATIONAL AFFAIRS							
Budget Authority	20.6	21.5	22.4	22.8	23.3	24.0	114.0
Outlays	17.1	19.6	19.1	19.3	19.5	19.9	97.4
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY							
Budget Authority	19.3	20.8	21.2	21.5	22.1	22.5	108.2
Outlays	18.9	19.6	20.5	21.2	21.6	22.2	105.1
270: ENERGY							
Budget Authority	-1.8	-1.0	-0.6	-0.5	-0.9	-0.7	-3.6
Outlays	-1.6	-0.7	-0.7	-0.4	-0.7	-0.6	-3.1
300: NATURAL RESOURCES AND ENVIRONMENT							
Budget Authority	24.3	26.0	26.3	26.0	26.6	27.1	132.1
Outlays	24.5	25.0	25.6	25.5	25.8	26.2	128.1
350: AGRICULTURE							
Budget Authority	32.0	22.6	17.5	13.6	12.4	11.6	77.6
Outlays	32.0	22.4	17.8	14.3	12.3	11.4	78.2
370: COMMERCE AND HOUSING CREDIT							
Budget Authority	10.2	10.8	5.7	5.0	4.0	4.5	29.9
Outlays	5.6	2.9	2.1	1.7	1.8	2.5	11.0
400: TRANSPORTATION							
Budget Authority	53.7	58.7	55.5	57.0	58.5	60.1	289.8
Outlays	46.7	49.5	51.1	52.5	53.9	55.1	262.1
450: COMMUNITY AND REGIONAL DEVELOPMENT							
Budget Authority	11.2	12.2	13.9	12.6	13.3	13.2	65.2
Outlays	11.1	10.2	10.3	9.8	9.9	9.4	49.5
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
Budget Authority	55.6	73.7	75.6	77.9	79.8	82.1	389.1
Outlays	63.4	67.5	73.7	76.9	78.6	80.6	377.2
550: HEALTH							
Budget Authority	158.6	170.6	181.2	195.5	211.4	228.7	987.5
Outlays	154.2	166.7	180.9	195.3	211.2	227.4	981.5
570: MEDICARE							
Budget Authority	206.3	220.2	229.3	242.4	264.7	286.7	1243.4
Outlays	202.5	220.5	229.3	242.2	265.0	286.7	1243.6
600: INCOME SECURITY							
Budget Authority	243.6	263.6	278.0	289.7	301.7	314.6	1447.6
Outlays	251.3	261.7	277.2	290.1	302.9	316.0	1447.9
650: SOCIAL SECURITY							
Budget Authority	408.0	427.0	447.9	470.5	495.2	522.0	2362.7
Outlays	406.6	425.7	446.6	468.9	493.4	520.0	2354.7
700: VETERANS BENEFITS AND SERVICES							
Budget Authority	47.4	46.2	49.2	51.1	52.8	54.5	253.7
Outlays	46.8	46.4	49.1	51.0	52.7	56.2	255.4
750: ADMINISTRATION OF JUSTICE							
Budget Authority	27.4	30.4	30.7	30.8	31.0	31.6	154.6
Outlays	26.8	31.4	30.7	31.0	31.3	31.6	156.0
800: GENERAL GOVERNMENT							
Budget Authority	14.1	16.1	16.3	16.4	16.6	16.8	82.1
Outlays	15.0	15.4	15.8	16.2	16.9	16.8	81.2
900: NET INTEREST							
Budget Authority	220.3	208.3	198.6	189.3	177.5	163.8	937.5
Outlays	220.3	208.3	198.6	189.3	177.5	163.8	937.5
920: ALLOWANCES							
Budget Authority	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-1.4
Outlays	0.8	-1.0	-0.2	-0.3	-0.3	-0.3	-2.2
950: UNDISTRIBUTED OFFSETTING RECEIPTS							
Budget Authority	-43.1	-45.6	-49.0	-47.2	-46.8	-48.5	-237.1
Outlays	-43.1	-45.6	-49.0	-47.2	-46.8	-48.5	-237.1

10-Feb-2000

Function 050: National Defense

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	294.1	306.3	310.1	316.4	324.1	332.4	1,589.2
	O	291.2	292.1	299.2	308.2	317.2	331.4	1,548.1
Mandatory	BA	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7	-3.8
	O	-0.5	-0.9	-0.8	-0.8	-0.7	-0.7	-3.9
Total	**BA**	**293.3**	**305.4**	**309.2**	**315.6**	**323.4**	**331.7**	**1,585.4**
	O	**290.6**	**291.2**	**298.4**	**307.4**	**316.5**	**330.7**	**1,544.2**

President Clinton's budget for 2001 provides $306.3 billion in discretionary funding for national security activities, including $292.2 billion for the Department of Defense (DOD), $13.1 billion for nuclear weapons-related activities of the Department of Energy (DOE), and $1.0 billion for defense activities in various other agencies, such as the Coast Guard and the Federal Bureau of Investigation. The 2000 level shown above reflects a $2.3 billion supplemental request in the 2001 budget to cover costs associated with Kosovo, East Timor, counter-drug operations, and repairs to storm damage. Kosovo represents almost $2.1 billion of the $2.3 billion. The 2001 budget includes funding to continue ongoing operations in Kosovo, Bosnia, and to enforce the "no-fly" zones in Iraq.

! ***A Significant Increase* —** The 2001 level is $12.2 billion (4.2 percent) more than the 2000 level. In inflation-adjusted (real) terms, the President's budget provides a 1.3 percent increase for national defense. The President's budget represents the first time since 1988 that a president has requested a real increase for defense funding, excluding contingencies such as the Persian Gulf War.[5] The President's budget is $24.4 billion above than the 2001 level specified in the bipartisan Balanced Budget Act of 1997, and $1.5 billion more than the 2001 level in last year's Republican budget resolution. Over the 2001-2010 period, funding for each year is more than the 2000 level in real (inflation-adjusted) terms.

[5]*According to the Congressional Research Service.*

Department of Defense

! ***The DOD Increase*** — The President's budget includes $292.2 billion for DOD, which is $11.3 billion (4.0 percent) more than the 2000 level. In inflation-adjusted (real) terms, the President's budget provides a 1.1 percent increase for DOD. The budget is also $11.8 billion more than the President's proposed level for 2001-2005 in his 2000 budget. The table on the next page provides yearly levels for DOD.

The President's 2001 DOD Budget
Appropriated Budget Authority in billions of dollars

	2001	2002	2003	2004	2005	
DOD	292.2	295.9	302.0	309.2	317.3	1,516.6
$ Increase	11.3	3.7	6.1	7.2	8.1	36.4

As the table indicates, the budget provides funding increases for DOD every year, although none of the increases are as large as the increase for 2001. However, the funding level for DOD in every year between 2001 and 2010 is greater than the 2000 level in real (inflation-adjusted) terms.

! ***Military Readiness*** — Operation and Maintenance (O&M) is an account basic to readiness because it funds training and education activities, maintenance of DOD bases and ranges, military exercises,

The Ongoing Readiness Controversy

On November 10, 1999, the DOD announced that two of the Army's ten combat divisions had been given the lowest readiness ratings possible ("C4"). For several years, many congressional Republicans have condemned the Clinton Administration for neglecting readiness, and have cited this announcement as proof of their charges.

Ironically, shortly after this announcement, the majority insisted on applying a 0.38 percent across-the-board cut to all 2000 appropriations. Military personnel accounts were exempted from the cut, so by law 2000 O&M funding was cut by an even higher percentage (0.51 percent) which totaled about $500 million. Congress thus appropriated about $600 million *less* for O&M than the President requested. Congress could have spared O&M and instead could have cut appropriated funds for items that the Pentagon does not want, such as the $375 million in advance funding for an amphibious assault ship built in Mississippi that will cost a total of $1.6 billion. In fact, since Republicans became the majority, the vast bulk of congressional increases for defense have been for procurement and research items, not readiness.

military operations, and other routine operations of the military. The budget includes $109.1 billion for O&M, an increase of $4.4 billion (4.2 percent) over the 2000 level. In constant 2000 dollars, the 2001 budget will provide $76,116 in O&M funds per active duty member, which is $395 more than the 2000 level. O&M funding per active duty member for 2001 will be 39 percent more in real terms than 1985, the peak year of the Reagan defense buildup. While O&M funds per active duty member is a crude measurement of readiness, the level in the 2001 budget is at its all-time high.

The number of military operations that involve U.S. military personnel also fuels the readiness controversy. For example, the two divisions in question last November (see discussion in box on previous page) — the 10th Mountain Division and the 1st Infantry Division — were rated C4 in large part due to the fact that portions of the division were serving in Bosnia and Kosovo, respectively. The divisions' commanders were concerned that these units in Bosnia and Kosovo would be unable to disengage from their peacekeeping operations, retrain, and then redeploy under the strict time constraints of the war plans.[6] Critics of the Administration claim that forces are deployed too frequently and too long, and thus cannot meet all training and readiness requirements. The Administration and others respond that such deployments are not only in the national interest, but provide training, instill teamwork among and within units, and provide leadership opportunities for inexperienced troops that cannot be acquired through exercises or simulations, and thus improve readiness.

The Quadrennial Defense Review (QDR)

Mandated by Congress and completed in May 1997, the QDR assessed both the national security strategy of the U.S. and the corresponding infrastructure and budget levels needed to accomplish that strategy. The QDR revalidated the Administration's strategy of being able to fight two major regional contingencies (MRCs) nearly simultaneously. Due to the aging and retirement of weapon systems procured during and prior to the 1980's defense build-up, the QDR recommended that procurement funding be raised to $60 billion to support this strategy. The sufficiency of defense funding proposed by the Clinton Administration, and particularly procurement funding, to support the two-MRC strategy has been called into question. Others question whether the two-MRC strategy is necessary, and argue that defense funding can be significantly lower.

! ***Military Procurement*** — The budget includes $60.3 billion for military procurement, which is $6.1 billion (11.2 percent) more than the 2000 level. In real

[6] The war plans assume U.S. Armed Forces must be able to engage in two major regional contingencies (MRCs) nearly simultaneously. The readiness issue for the two divisions discussed was whether they would be ready to fight in the second MRC in time.

(inflation-adjusted) terms, the President's budget provides a 8.1 percent increase. This level meets the target established by the Quadrennial Defense Review (QDR). (See accompanying box for further discussion.)

! ***F-22 Raptor*** — The budget includes $4.0 billion in funding for the F-22 Raptor, the Air Force's "next generation" fighter which is to replace the F-15C/D as the Air Force's most capable air superiority fighter. Congress did not authorize this aircraft to enter production in 2000 as planned due to cost overruns and concerns of inadequate testing. The 2001 budget for the F-22 includes $2.5 billion for procurement of ten low-rate initial production aircraft, and $1.4 billion for continued research, development, and testing.

! ***Research and Development*** — The President's budget includes $37.9 billion for research, development, test, and evaluation activities. This level is about $500 million below the 2000 level. However, as a result of last year's compromise on the F-22 Raptor, the 2000 funding includes almost $300 million that will likely be transferred to procurement accounts for the purchase of long-lead items for up to ten F-22 aircraft. The Air Force will transfer these funds if the F-22 program meets certain testing requirements, and if so, the 2001 level is only $200 million below the 2000 level.

! ***Ballistic Missile Defense*** — Ballistic missile defense (BMD) is generally divided into two major types of anti-missile systems: (1) theater missile defense (TMD), to protect U.S. troops abroad and allies from relatively short-range ballistic missiles with ranges of no more than 2,200 miles; and (2) national missile defense (NMD), to protect the U.S. "homeland" against intercontinental ballistic missiles with ranges beyond 2,200 miles. The budget includes $4.5 billion for all BMD programs for 2001, which is an increase of $657 million (17 percent) from the 2000 level.

The budget includes a total of $1.9 billion for NMD, which is about $400 million more than the 2000 level. The budget adds $2.2 billion for NMD between 2001 and 2005 compared with the 2000 budget for this same period. Of the 2001 amount, $1.7 billion is for continued research, development, and testing of a ground-based system capable of intercepting limited numbers of unsophisticated missiles, such as those that may be developed by North Korea and Iran. The Administration is scheduled to decide whether to go forward with deployment of this system sometime this summer. The decision will be based on testing results, system cost, updated threat assessments, and arms control implications. The 2001 funding includes a total of $176 million for site preparation and procurement funding that will support deployment of the NMD system in 2005 if a decision to deploy is made.

The 2001 budget includes $2.0 billion for TMD, which is almost $300 million (12.9 percent) below the 2000 level. The funding for the major TMD programs is as follows:

Theater High Altitude Area Defense	$550 million
Navy Theater Wide	$383 million
Navy Area Wide	$274 million
PAC-3	$447 million

In addition to NMD and TMD funding, the budget includes about $600 million for BMD advanced program research, support technology, and technical operations.

! ***Quality of Life Initiatives for the Troops and Their Families*** — The budget includes several different initiatives that build upon last year's pay increase and military retirement reforms to improve the quality of life for members of the Armed Forces and their families. These initiatives are designed to both attract and retain quality military personnel.

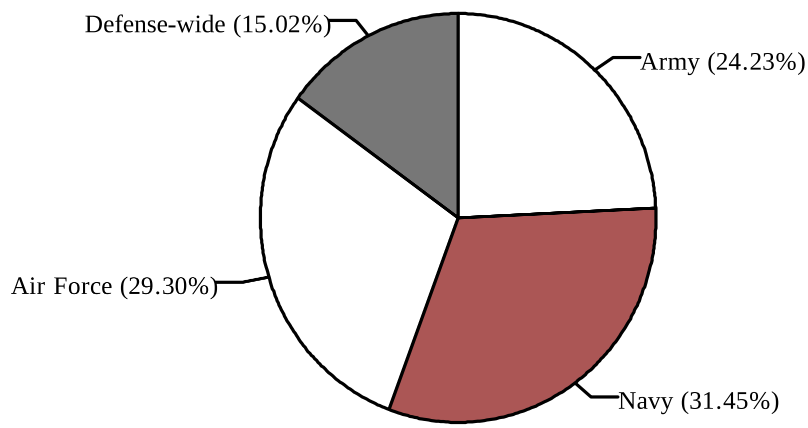
Military Pay: The President's budget repeals the provision included in the Omnibus Consolidated Appropriations Act of 2000 that delayed pay dates for all military and federal civilian employees who are scheduled to be paid on September 29 or 30, 2000, to October 1, 2000 (See the discussion of repealing the pay delay in *Civilian and Military Pay and Retirement*). The budget includes a pay raise of 3.7 percent, which is a half percentage point higher than the Employment Cost Index (the Department of Labor's measure of civilian wage growth) and 1.3 percentage points higher than the Consumer Price Index.

Housing: The budget also includes an initiative to lower the "out-of-pocket" costs for military personnel who live off base. The "Basic Allowance for Housing" covers about 81 percent of the cost of living off base, which means those military personnel who cannot obtain on-base housing have to bear 19 percent of their housing costs. The President's initiative would lower these costs to 15 percent in 2001, and gradually eliminate all out-of-pocket costs by 2005.

Defense Health Program: The budget includes $11.6 billion for the Defense Health Program, which is $450 million (4.0 percent) more than the 2000 level. This program provides medical care to 5 million people annually. The budget for 2001 eliminates copayments for active-duty personnel and their families. Due to a combination of fewer on-base medical facilities (as a result of base closures) and an aging military retiree population, health care for military retirees has become a pressing problem. DOD is conducting pilot projects to test methods of improving health care for military retirees, such as using Medicare funds to reimburse DOD facilities that treat military retirees over the age of 65 (Medicare Subvention).

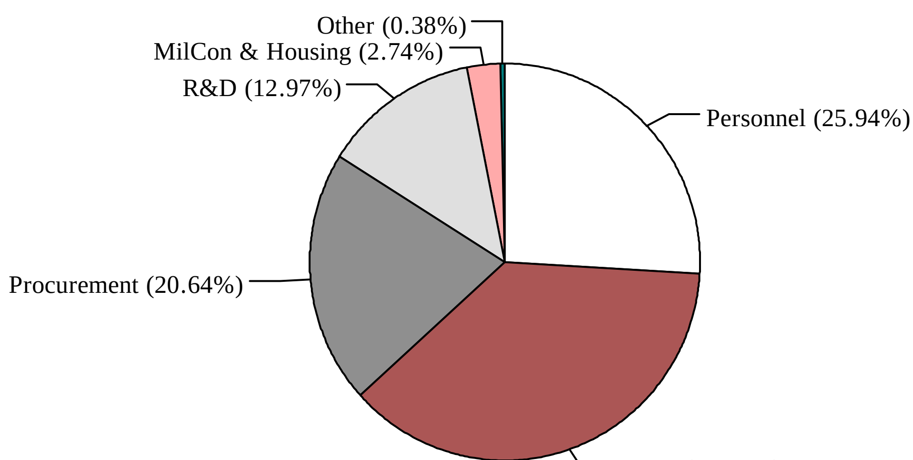
The Departments of DOD

2001 Discretionary Budget Authority



2001 DOD Budget by Account

Discretionary Budget Authority



The DOD Pie — The two pie charts illustrate how funding for the DOD is split among major accounts and departments. Funding for the Navy includes the Marine Corps, and "Defense-wide" includes funding for the Office of the Secretary of Defense and independent agencies, such as the Defense Mapping Agency, within DOD. Military construction is abbreviated as "MilCon." The levels are as follows (in billions of dollars):

BY DEPARTMENT	
Army	70.8
Navy	91.9
Air Force	85.6
Defense-Wide	43.9
Total	**292.2**

BY MAJOR ACCOUNT	
Personnel	75.8
O&M	109.1
Procurement	60.3
R&D	37.9
MilCon/Housing	8.0
Other	1.1
Total	**292.2**

Department of Energy (DOE) National Security Activities

The budget includes $13.1 billion for the DOE's defense activities, which is $927 million (7.6 percent) more than the 2000 level. Of this funding, $6.6 billion is for activities related to the military application of nuclear energy and $6.4 billion is for addressing environmental problems caused by radioactive and other hazardous wastes.

- ***Stockpile Stewardship*** — The primary defense mission of the DOE is to maintain the reliability and safety of U.S. nuclear weapons. After President Clinton announced a U.S. moratorium on nuclear testing on July 4, 1993, the stockpile stewardship program was established to maintain the safety and reliability of nuclear weapons in the absence of underground tests. This program relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The 2001 budget includes $4.6 billion for stockpile stewardship, which is $210 million (4.8 percent) more than the 2000 level.

- ***The National Ignition Facility* —** A centerpiece of the stockpile stewardship program is the National Ignition Facility (NIF). The NIF will duplicate on a small scale the type of thermonuclear activity that is found in the sun and in nuclear weapon explosions. The NIF will also have civilian applications for exploring nuclear fusion as an energy source. The 2001 budget includes $74 million for NIF, but this funding level will not meet actual 2001 requirements. Due to construction problems and cost overruns, the DOE is currently reassessing its 2001 requirements for NIF, and will submit an amended budget request to Congress by June 1. The original cost estimate for the NIF was $1.2 billion.

- ***Environmental Management*** — The budget includes $6.4 billion to manage and to continue to clean up environmental contamination that resulted from more than four decades of nuclear weapon production. Much of this contamination is radioactive, although some former production sites suffer equally from hazardous but non-radioactive contamination.

The 2001 level is about $250 million (4 percent) more than the 2000 level.

! ***National Nuclear Security Administration (NNSA)*** — The 2000 Defense Authorization Act requires a semi-autonomous agency to be established within DOE to focus on many of DOE's national security missions. The NNSA will be operational on March 1, 2000. The NNSA will include programs that total $6.1 billion for 2001. These include the stockpile stewardship program (discussed above), DOE's non-proliferation and intelligence programs, the disposition of U.S. and Russian fissile nuclear weapons materials, and the naval nuclear reactor program. The 2001 level for this program is $432 million (7.5 percent) more than the 2000 level.

Function 150: International Affairs

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	23.9	22.8	23.2	23.5	24.1	24.6	118.1
	O	21.8	23.7	22.8	23.0	23.2	23.6	116.3
Mandatory	BA	-3.3	-1.3	-0.8	-0.7	-0.8	-0.6	-4.1
	O	-4.8	-4.1	-3.7	-3.7	-3.7	-3.7	-19.0
Total	**BA**	**20.6**	**21.5**	**22.4**	**22.8**	**23.3**	**24.0**	**114.0**
	O	**17.1**	**19.6**	**19.1**	**19.3**	**19.5**	**19.9**	**97.4**

The 2001 budget includes $22.8 billion for U.S. international activities, including: operation of U.S. embassies and consulates throughout the world, military assistance to allies, aid to developing nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, and peacekeeping efforts. All international activities represent about one percent of the federal budget.

! ***Overview*** — The 2001 level is $1.2 billion less than the 2000 level. However, the 2000 level includes $1.8 billion for the Wye River Middle East peace process and $351 million for back dues (arrears) that the U.S. owes to the United Nations. Excluding these items from the comparison, the President's budget is actually $1.0 billion (4.7 percent) more than the 2000 level.

! ***U.S. Foreign Aid in Comparison to Other Developed Countries*** — According to the most recent foreign aid figures from the Organization for Economic Cooperation and Development (OECD),[7] the U.S. ranks 21st in the world in terms of foreign aid as a percent of gross national product (GNP). The U.S. level is one-tenth of one percent of GNP, which is a quarter of the average percentage among developed countries. Countries that provide more foreign aid as a percent of GNP than the U.S. include Japan, Australia, France, Ireland, Italy, Luxembourg, New Zealand, Portugal, and Spain. In total amount of foreign

[7] Data is from the OECD 1999 Development Cooperation Report, February, 2000. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing county by the OECD.

aid, the U.S. ranks second, $1.9 billion behind Japan.

- ***Supplemental for 2000*** — The 2000 level shown above reflects a $1.7 billion supplemental requested in the 2001 budget. Of this funding, $818 million is emergency funding for Plan Columbia (see discussion below), $725 million is emergency funding for Kosovo and the Balkans, and $210 million is non-emergency funding for debt relief for heavily indebted poor countries.

- ***Economic Support Fund (ESF) and Foreign Military Financing (FMF)*** — The budget includes $840 million in ESF and $2.0 billion in FMF assistance for Israel. Israel's traditional levels had been $1.2 billion in ESF and $1.8 billion in FMF assistance since 1986, but were changed in 1998 by an agreement with former Israeli Prime Minister Benjamin Netanyahu that increases FMF and decreases ESF over time.

  The budget includes $695 million in ESF assistance for Egypt, which is $32 million below the 2000 level of $727 million. The budget includes $1.3 billion in FMF assistance, which has been the typical level of FMF assistance for Egypt since 1986.

  The budget includes a total of $2.3 billion in ESF assistance for 51 countries and organizations, which is $29 million below the 2000 level. The budget includes a total of $3.5 billion for FMF assistance, which is $125 million less than the 2000 level. FMF assistance is provided to 40 countries and organizations.

- ***Agency for International Development*** — The budget includes $2.9 billion for the Agency for International Development (AID), which is $210 million (7.8 percent) more than the 2000 level. The budget provides $2.1 billion for Sustainable Development programs, including $659 million for the Child Survival and Diseases Fund and $533 million for the Development Fund for Africa. Total 2001 funding for Sustainable Development programs is $200 million (10 percent) more than the 2000 level.

- ***New Independent States and Eastern Europe*** — The budget includes $830 million for assistance to the Independent States of the Former Soviet Union, which is $5 million below the 2000 level. The budget also includes $610 million in funding for the Support Eastern European Democracy (SEED) program, which is $77 million (14.4 percent) more than the 2000 level. SEED 2001 funding includes $130 million for Bosnia and $150 million for Kosovo.

- ***Embassy Security*** — The budget includes $1.1 billion for embassy security upgrades, which is almost 50 percent more than the 2000 level. This funding is part of an ongoing, multi-year effort to enhance and improve embassy security in the wake of the devastating terrorist attacks against U.S. embassies in Kenya and Tanzania in August, 1998.

- ***International Narcotics and Plan Columbia*** — The budget includes $312 million for the International Narcotics and Crime program, which is $8 million more than the 2000 level. This program helps foreign countries and international organizations implement policies and programs that strengthen counternarcotics law enforcement. The budget also includes $256 million for Plan Columbia, which will assist the government of Columbia to control illegal narcotic production and trafficking. The President's budget includes $818 million for Plan Columbia in a supplemental request for 2000; the 2001 budget funds the second year of this initiative.

- ***Peace Corps*** — The budget includes $275 million for the Peace Corps, which is $31 million (12.7 percent) more than the 2000 level.

Function 250: General Science, Space, and Technology

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	19.2	20.8	21.2	21.5	22.1	22.5	108.0
	O	18.8	19.6	20.5	21.1	21.6	22.1	104.9
Mandatory	BA	0.1	0.1	0.0	0.0	0.0	0.0	0.2
	O	0.1	0.1	0.0	0.0	0.0	0.0	0.2
Total	**BA**	**19.3**	**20.8**	**21.2**	**21.5**	**22.1**	**22.5**	**108.2**
	O	**18.9**	**19.6**	**20.5**	**21.2**	**21.6**	**22.2**	**105.1**

This function includes the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs within the Department of Energy (DOE).

President Clinton's budget provides $20.8 billion in discretionary funding for science, space, and technology programs for 2001, an increase of $1.6 billion over the 2000 level. The 2001 budget also includes $5.2 billion for tax credits focused on these topics.

! ***National Aeronautics and Space Administration (NASA)*** **—** The budget provides $13.1 billion for NASA science activities, an increase of $530 million above the 2000 level. An additional $935 million is included in Function 400 (Transportation), bringing NASA's total to $14.0 billion, a $435 million increase above the 2000 level. The budget provides $2.1 billion for the International Space Station, $209 million below the 2000 level. The budget includes $5.4 billion for NASA's research and development (R&D) activities, up $434 million from the 2000 level.

! ***National Science Foundation (NSF)*** **—** The budget provides $4.6 billion for NSF, an increase of $675 million (17.3 percent) compared with the 2000 level. This increase more than doubles any past increase for NSF.[8] Of the $4.6 billion, $3.5 billion is for research, including: (1) $740 million for a multi-agency information technology initiative focusing on computer research (up $223 million or 43.1 percent from the 2000 level); (2) $217 million for NSF's portion of a government-wide National Nanotechnology Initiative, an increase of

[8]These amounts do not include $33 million for 2000 and $31 million for 2001 from H-1B nonimmigrant petitioner fees.

$119 million; (3) $136 million for a Biocomplexity in the Environment initiative, almost three times the 2000 level; and (4) $157 million for the 21st Century Workforce initiative to educate people in science and technology, more than double the funding for 2000.

! ***Department of Energy (DOE) General Science*** **—** The budget provides $3.2 billion for DOE science programs, an increase of $363 million above the 2000 level. This includes $1.1 billion for high energy and nuclear physics, $1.0 billion for basic energy sciences, $445 million for biological and environmental research, and $247 million for fusion energy sciences.

Function 270: Energy

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	2.6	2.9	3.3	3.1	3.2	3.3	16.0
	O	2.8	3.1	3.3	3.3	3.3	3.3	16.3
Mandatory	BA	-4.4	-3.9	-3.9	-3.6	-4.1	-4.0	-19.5
	O	-4.5	-3.8	-3.9	-3.7	-4.0	-4.0	-19.4
Total	**BA**	**-1.8**	**-1.0**	**-0.6**	**-0.5**	**-0.9**	**-0.7**	**-3.6**
	O	**-1.6**	**-0.7**	**-0.7**	**-0.4**	**-0.7**	**-0.6**	**-3.1**

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

President Clinton's budget for 2001 provides $2.9 billion in appropriated funding for these programs. The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity show as negative mandatory spending in this function. Consequently, total spending is negative; the government makes more money than it spends on these energy programs.

! ***Energy Supply R&D*** — The President's budget provides $765 million for applied energy R&D, an increase of $122 million (19.0 percent) from the 2000 level; this total excludes an additional $49 million from prior year balances and other adjustments. Of the total, the budget provides $457 million for solar and renewable resources technology (an increase of $99 million or 28 percent from the 2000 level) and $308 million for nuclear energy research (an increase of $23 million).

! ***Fossil Energy R&D*** — The budget provides $376 million to help industry learn how to produce and use coal, oil, and gas resources more efficiently, a decrease of $28 million from the 2000 level.

! ***Energy Conservation*** — The budget includes $850 million for energy conservation programs, which is $91 million (12.1 percent) above the 2000 level.

Energy Research Funding in Function 270
(budget authority in millions of dollars)

	2000	*2001*	*% change*
Energy conservation	759	850	12
Solar and renewable resources	357	457	28
Fossil energy	403	376	-7
Nuclear energy	285	308	8
Environment, safety, and health	38	40	5

- ***Nuclear Waste Disposal*** — The budget provides $326 million to find a permanent method to dispose of DOE's high-level radioactive waste and spent nuclear fuel, an increase of $90 million (38.1 percent) above the 2000 level. (The budget includes in *Function 050 (National Defense)* an additional $112 million for disposal of weapons-related nuclear waste.) This funding is primarily for DOE to determine the viability of Yucca Mountain, Nevada, as the site for a permanent geological repository for nuclear waste.

- ***Power Marketing Administrations (PMAs)*** — The budget provides $179 million for the three federally subsidized PMAs, which sell to public utilities and cooperatives the electricity generated primarily by hydropower projects at federal dams. PMAs also arrange to buy and re-sell, or "wheel," power from other electricity producers on behalf of their customers, who then reimburse the PMAs. The President's budget for 2001 provides $70 million for wheeling; last year it included no funds for wheeling (Congress appropriated $70 million for 2000). The Budget Committees, OMB, and CBO agreed in January to change the budgetary treatment of appropriations for wheeling; under the new treatment, appropriated funds are credited with offsetting collections from customers who purchase the power. As a result, the net appropriation is recognized as zero and the Appropriations Committee is not charged for the funding it appropriates for wheeling.

- ***Rural Electrification and Telecommunications*** — The budget provides a loan level of $1.6 billion for electrification and telecommunications loans from the Agriculture Department's Rural Utilities Service, down from a loan level of $2.6 billion last year. While this program has net revenues of $1.8 billion in this function, the budget provides $69 million in appropriated funding to cover the cost of making the loans, an increase of $23 million compared with the 2000 level.

Function 300: Natural Resources and Environment

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	24.0	24.9	25.1	25.4	26.0	26.5	127.8
	O	24.0	24.6	25.0	25.1	25.3	25.7	125.7
Mandatory	BA	0.3	1.0	1.2	0.7	0.7	0.7	4.3
	O	0.5	0.4	0.7	0.4	0.5	0.5	2.4
Total	**BA**	**24.3**	**26.0**	**26.3**	**26.0**	**26.6**	**27.1**	**132.1**
	O	**24.5**	**25.0**	**25.6**	**25.5**	**25.8**	**26.2**	**128.1**

Function 300 includes programs in a variety of federal agencies concerned with the development and management of the nation's land, water, and mineral resources; recreation and wildlife areas; and environmental protection and enhancement. This function does not include the large-scale environmental clean-up programs at the Departments of Energy and Defense (see Function 050: Defense and Function 270: Energy).

For 2001, the budget includes $24.9 billion in discretionary funding, an increase of $899 million above the 2000 level. Mandatory spending in this function is a combination of spending by the nation's land management agencies and receipts related to the use of public lands. For 2001, mandatory spending slightly exceeds receipts.

The President's budget includes a variety of proposals to protect natural resources and improve the environment. Among these proposals are the Lands Legacy Initiative, the Farm Conservation Initiative, the Livable Communities Initiative, the Clean Water Action Plan, support for Pacific salmon recovery, and international environmental aid. These proposals involve several federal agencies and provide new resources for state and local participation. For environment-related research efforts, see *Function 250 (General Science, Space and Technology)*.

! ***Lands Legacy Initiative*** — Like last year's budget, the 2001 budget contains a comprehensive Lands Legacy Initiative to expand federal protection of critical lands, help states and communities preserve local green spaces, and strengthen protections for oceans and coasts. However, the 2001 initiative differs from the 2000 proposal in two ways. First, the 2001 initiative provides significantly more funding than the President's 2000 budget and nearly doubles the actual appropriations for 2000. The 2001 funding level is $1.4 billion, while the President's 2000 budget requested just over $1.0 billion and the 2000 appropriated level was $727 million. Second, the 2001 initiative places the $1.4 billion in a new capped appropriations budget category similar to the ones created for highway and mass transit funding in 1998. With this cap, Congress will be unable to shift conservation funding to other appropriated programs. Of the total 2001 funding, $600 million comes from the Land and Water Conservation Fund.

Lands Legacy Initiative

(budget authority in millions of dollars)

	2000 Enacted	2001	Change from 2000	2001 Funds from LWCF
Federal Land Acquisition				
Department of Interior	264	320	56	320
U.S. Forest Service	156	130	(26)	130
Subtotal	**420**	**450**	**30**	**450**
State and Local Assistance				
LWCF State Conservation Grants	40	150	110	150
State Non-Game Wildlife Grants	0	100	100	
State Planning Partnerships	0	50	50	
Cooperative Endangered Species	23	65	42	
North American Wetland Conservation	15	30	15	
Urban Parks & Recreation Recovery	2	20	18	
Forest Legacy Program	30	60	30	
Urban and Community Forestry	31	40	9	
Smart Growth Partnership	0	6	6	
Subtotal	**141**	**521**	**380**	**150**
Ocean and Coastal Protection				
National Marine Sanctuary Program	26	35	9	
Coastal Zone Management Act	59	159	100	
Coastal Impact Assistance Grants	0	100	100	
Pacific Northwest Salmon Fund	58	100	42	
National Estuarine Research Reserves	12	20	8	
Coral Reef Restoration	6	15	9	
Dredging and other NOAA Programs	5	0	(5)	
Subtotal	**166**	**429**	**263**	
Grand Total, Lands Legacy	**727**	**1,400**	**673**	**600**

! ***Farm Conservation Initiative* —** As part of a larger effort to strengthen the farm safety net, the President's budget includes a $1.3 billion increase in mandatory spending for 2001 to help farmers preserve farmland and protect water quality and the environment. The centerpiece of the initiative is a new Conservation Security Program that would pay farmers who voluntarily adopt various conservation practices. The budget allocates $600 million annually for this program for 2001 and 2002. The budget devotes the rest of the increase to existing conservation-related farm programs. The cost of the initiative over 2001-2005 is $4.0 billion compared to a baseline projection of current law. For more information on the President's farm safety net proposal, see *Function 350 (Agriculture)*.

! ***Better America Bonds* —** As part of the Administration's Livable Communities initiative, the budget provides a new financing tool for states, tribes, and localities to preserve green spaces and spur economic activity in distressed urban areas. For 2001, the federal government will competitively distribute $2.2 billion in bond authority for zero-interest bonds, for which the federal government will provide tax credits in lieu of interest. The budget provides $10.8 billion in bond authority over five years, with an estimated cost of $700 million over that period. For more information on the Livable Communities Initiative, see *Function 400 (Transportation)*.

! ***Environmental Protection Agency Operating Programs* —** The President's budget provides $3.9 billion for the EPA's operating programs for 2001, which include most of the agency's research, regulatory, and enforcement programs. Also included are grants to state, local, and tribal governments to assist them in enforcing environmental laws and measuring environmental improvements. This is an increase of nearly $400 million above the 2000 funding level. Of this increase, $184 million is for the state and local grants.

! ***Water Infrastructure Financing* —** The President's budget for 2001 includes $1.8 billion for water infrastructure financing programs, a decrease of $807 million from the 2000 level. These programs provide grants to states, tribes, and local governments to protect water resources and provide safe drinking water. Within this account, the budget provides $825 million for state and tribal drinking water revolving funds, an increase of $5 million from last year's funding level. For grants to clean water revolving funds, the budget provides $800 million, a significant decrease of $545 million (40.5 percent) from the 2000 funding level. The Administration believes that this funding level is consistent with its goal of having the clean water revolving funds provide an average of $2.0 billion in financial assistance annually.

! ***Superfund* —** The President's budget provides $1.5 billion in funding for the Superfund program, $50 million more than the 2000 level. Combined with continuing administrative reforms of the program, this funding level will help meet the President's pledge to complete the clean-up of two-thirds of Superfund hazardous waste sites by the end of 2002. Like last year's budget, the 2001 budget also reinstates the Superfund excise taxes that expired in 1995.

- ***Harbor Services User Fee*** — Like last year, the 2001 budget contains a Harbor Services User Fee to replace the Harbor Maintenance Tax, which in 1998 was found unconstitutional as it applied to exports. The new fee will raise an average of $980 million annually through 2005. The budget deposits receipts from this fee into a new Harbor Services Fund and uses the proceeds to offset the Army Corps of Engineers' costs associated with maintaining ports.

- ***National Oceanic and Atmospheric Administration (NOAA)*** — The 2001 budget includes $2.9 billion for NOAA, which is comprised of $83 million in mandatory funding and $2.8 billion in appropriated funding. The appropriated funding level for NOAA is $490 million (21 percent) higher than the 2000 appropriations. $263 million of the increased funding is for NOAA's share of the Lands Legacy Initiative (see table for details). The President's budget also includes two new user fees that offset $34 million of NOAA's appropriated spending.

Function 350: Agriculture

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	4.5	4.6	4.6	4.5	4.7	4.7	23.1
	O	5.2	4.8	4.7	4.6	4.7	4.8	23.5
Mandatory	BA	27.5	18.0	12.9	9.0	7.7	6.8	54.5
	O	26.8	17.6	13.1	9.7	7.6	6.6	54.7
Total	**BA**	**32.0**	**22.6**	**17.5**	**13.6**	**12.4**	**11.6**	**77.6**
	O	**32.0**	**22.4**	**17.8**	**14.3**	**12.3**	**11.4**	**78.2**

President Clinton's budget provides $22.2 billion for 2001 for farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; and a portion of the Public Law (P.L.) 480 international food aid program. The budget provides $4.6 billion for these programs for 2001, $100 million more than the 2000 level.

The mandatory programs include commodity programs, crop insurance, and certain farm loans. The budget provides $17.6 billion in mandatory spending. This is a decease of $8.8 billion from the 2000 level, which included $9.1 billion in emergency funding to compensate farmers for income loss due to natural and economic disasters.

The President's 2001 budget includes a Farm Safety Net initiative to replace the need for continued emergency farm appropriations. (See *Strengthening the Farm Safety Net* for discussion.)

! ***Crop Insurance*** — Early in 2000, as part of the $9.1 billion in emergency disaster relief package, producers received nearly $1.4 billion in crop loss payments to compensate for natural disasters in 1999. Payments also were made to uninsured farmers, but with the requirement that those farmers purchase insurance for the 2000 and 2001 crop years. For the second consecutive year, $400 million was provided in 2000 to help farmers pay insurance premiums. As a result, crop insurance participation and related subsidy costs are expected to be above average in 2000 and 2001. Both increased participation and higher coverage have the effect of enhancing the farm safety net and reducing the need for supplemental disaster assistance. The USDA also continues to develop crop insurance policies on new crops and expand several insurance products that mitigate revenue risk from both price and production fluctuations.

- ***Agricultural Research*** **—**The President's budget includes $2.2 billion for 2001 for agricultural research, education, economics, and statistics programs, an increase of $64 million (3.0 percent) from the 2000 level. This includes: (1) $950 million for the Agricultural Research Service; (2) $1.1 billion for the Cooperative State Research, Education and Extension Service ($120 million for mandatory programs); and (3) $150 million for the Economic Research Service and the National Agricultural Statistics Service.

- ***Personnel, Infrastructure, and Regulatory Burden*** **—** The budget provides $914 million in discretionary budget authority for administrative expenses for 2001, an increase of $45 million (5.2 percent) over the 2000 level. USDA administers its many farm, conservation, and rural development programs through 2,500 county offices with over 17,000 staff. The increasing costs of maintaining the current delivery system and the investment in new information technology have prompted the USDA to re-examine its reliance on staff-intensive field offices. In 2000, Congress postponed the USDA's initiative to achieve efficiency savings of $21 million by sharing common administrative processes and staff. As a result, while the USDA will continue to transform the county-based field agencies (Farm Services Agency, Natural Resources Conservation Service, and Rural Development) to one-stop USDA Service Centers, many of the changes will not be implemented before 2002.

Function 370: Commerce and Housing Credit

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	7.2	3.5	3.3	3.3	3.2	3.3	16.5
	O	7.2	3.8	3.2	3.3	3.3	3.3	16.8
Mandatory	BA	2.9	7.3	2.3	1.7	0.8	1.2	13.4
	O	-1.6	-0.9	-1.1	-1.6	-1.4	-0.8	-5.8
Total	**BA**	**10.2**	**10.8**	**5.7**	**5.0**	**4.0**	**4.5**	**29.9**
	O	**5.6**	**2.9**	**2.1**	**1.7**	**1.8**	**2.5**	**11.0**

Function 370 includes: deposit insurance and financial regulatory agencies; the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; Small Business Administration business loans; the Postal Service; and other regulatory agencies such as the Federal Communications Commission (FCC).

Appropriated funding for Function 370 drops from $7.2 billion for 2000 to $3.5 billion for 2001, a decrease of $3.8 billion. This significant decrease is comprised of much less funding for the 2000 decennial census and is partially offset by increases for other programs in the function. Mandatory spending for Function 350 increases by $4.4 billion to $7.3 billion for 2001.

! ***New Markets Initiative*** — The President's New Markets Initiative includes funding and tax credits for several economic development programs. These include the following programs: (1) $37 million for America's Private Investment Companies (APICs), which encourage businesses to relocate or expand in economically distressed areas; (2) $52 million for New Markets Venture Capital (NMVCs), which encourage the growth of smaller firms by matching private investment equity with government-guaranteed debt and technical assistance funding; (3) $6.6 million for BusinessLINC, a program designed to encourage networking and collaboration between small and large businesses in economically distressed areas; and (4) a 25 percent New Markets Tax Credit for community development banks, community-oriented equity funds, and other investment programs that could finance varied businesses and facilities in distressed communities.

The New Markets Initiative for 2001 also includes three new components: (1) $15 million for the Program for Investment in Microentrepreneurs (PRIME), an initiative to provide technical assistance grants to microenterprise intermediaries that assist low-income entrepreneurs; (2) $5 million for a pilot project to provide grants to help 10 to 12 law and business schools foster economic and business development in the schools' surrounding communities; and (3) $30 million to provide financial and banking services for the approximately 10 million people who do not have access to these services.

- ***Bureau of the Census*** — Funding for the Census Bureau drops from $4.8 billion for 2000 to $719 million for 2001, a decrease of $4.0 billion. This decline is mostly attributable to the completion of the 2000 decennial census; the bureau's budget for that project declines from $4.5 billion for 2000 to $393 million for 2001, a decrease of $4.1 billion.

- ***Patent and Trademark Office*** *(PTO)* — The budget includes $1.0 billion for this fee-funded office, which is $171 million (19.7 percent) higher than the 2000 level.

- ***National Institute of Standards and Technology*** — The budget includes $713 million for 2001, an increase of $77 million over the 2000 level. This total includes an increase of $34 million for the Advanced Technology Program and an increase of $10 million for the Manufacturing Export Partnership.

- ***Other Department of Commerce programs*** — The budget provides $357 million for the International Trade Administration for 2001, $50 million over the 2000 level. The budget also includes $72 million for the Bureau of Export Administration, an increase of $18 million over the 2000 level, and $28 million for the Minority Business Development Agency, an increase of $1 million.

- ***Small Business Administration (SBA)*** — The budget provides $1.1 billion for SBA, an increase of $151 million from the 2000 level. Of that total, funding for SBA business loans is $332 million, up $73 million from 2000. The 2001 funding level supports a loan volume of $18 billion, $2.4 billion higher than the estimated loan volume for 2000.

- ***Federal Housing Administration (FHA)*** — The President's budget contains two changes to FHA's mortgage insurance program that result in increased earnings for the federal government. First, the budget raises the limit on the value of single-family homes for which FHA can provide mortgage insurance. Second, the budget allows FHA to insure new types of adjustable-rate mortgages. These changes result in $355 million more in premium collections for 2001.

! ***Rural Housing Loans* —** The budget includes $741 million for rural housing loans administered by the Department of Agriculture. This funding level is an increase of $173 million from the 2000 level. This funding level supports the subsidy and administrative costs of an estimated $5.4 billion in rural housing loans ($1.5 billion in direct loans and $3.9 billion in guaranteed loans), an increase of $700 million in loans over the 2000 program level.

Function 400: Transportation

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	13.3	14.5	14.5	15.0	15.6	16.3	75.9
	O	44.3	47.5	49.5	50.5	52.0	53.3	252.6
Mandatory	BA	40.4	44.2	41.0	42.0	42.9	43.8	213.9
	O	2.4	2.1	1.6	2.0	1.9	1.9	9.5
Total	**BA**	**53.7**	**58.7**	**55.5**	**57.0**	**58.5**	**60.1**	**289.8**
	O	**46.7**	**49.5**	**51.1**	**52.5**	**53.9**	**55.1**	**262.1**

Function 400 is comprised mostly of the programs administered by the Department of Transportation, including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

President Clinton's budget provides $58.7 billion in budget authority for transportation programs, an increase of $5.0 billion (9.3 percent) above the 2000 enacted level. The enactment in 1998 of the Transportation Equity Act for the 21st Century (TEA-21) marked a major shift in the funding of highway and mass transit programs. TEA-21 constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year and requires the guaranteed minimum level of highway resources to be adjusted annually. Following the rules in TEA-21, the Administration adjusted the 2001 funding level upward by $3.1 billion. However, the President's budget diverts $741 million of this "revenue aligned budget authority" (RABA) for 2001 to programs meant to improve accessibility, enhance highway safety, and promote economic development in distressed areas (see table below).

! ***Federal Highway Administration (FHWA)*** — The President's budget provides $30.4 billion for the FHWA for 2001, including an obligation limitation of $29.3 billion for federal-aid highways. This obligation limitation is $1.8 billion more than the 2000 enacted amount of $27.5 billion and $2.6 billion more than the obligation limitation set forth for 2001 in TEA-21. As stated above, the budget diverts $741 billion of the $3.1 billion adjustment in 2001 from core highway programs to other transportation priorities.

! *Federal Transit Administration (FTA)* **—** The President's budget provides $6.3 billion for the FTA for 2001, $536 million (9.3 percent) more than the 2000 enacted level. The budget provides $3.3 billion for formula grants, available for all transit purposes, and $2.6 billion for capital investment grants. The budget doubles funding for the job access and reverse commute program, which helps localities improve access to employment opportunities, from $75 million for 2000 to $150 million for 2001. Of this amount, $50 million is reallocated from RABA funds.

President's RABA Redistribution Proposal
(budget authority in millions of dollars)

Job Access and Reverse Commute Program	50
Commercial Drivers License Program	10
Highway safety research & outreach	70
Intercity passenger rail capital investments	468
Mississippi Delta transportation improvements	48
Indian reservation roads	75
Counter highway use tax evasion (IRS)	20
Total	741

! ***Livable Communities Initiative*** — The President's budget continues the Livable Communities Initiative, which improves the quality of life in communities around the country. Transportation programs are the biggest component of the initiative, accounting for $9.1 billion of the $9.3 billion for 2001. The initiative includes money for mass transit, intercity passenger rail, transportation enhancements, projects to reduce air pollution, and other programs (see table below for details).

! ***National Highway Traffic Safety Administration (NHTSA)* —** The President's budget increases NHTSA funding to $499 million for 2001, $132 million (36.0 percent) more than the 2000 level. The budget provides $70 million of this increase from RABA funds that under current law would go to the core highway programs.

! ***Federal Motor Carrier Safety Administration (FMCSA)*** — Last year, Congress created a new administration within the Department of Transportation to administer truck and bus safety, which had been under the jurisdiction of the Office of Motor Carriers in the Federal Highway Administration. For 2001, the President's budget provides $279 million for the new administration, $98 million (54.1 percent) more than the comparable 2000 level. Of the total, $187 million is for state grants for better enforcement of interstate commercial motor vehicle regulations. The President's budget provides $10 million of that funding from unanticipated excise tax revenues.

Livable Communities Initiative, Transportation Component
(budget authority or obligation limitations in millions of dollars)

	2000 Enacted	2001 Budget
Mass transit	5,785	6,321
Congestion Mitigation & Air Quality	1,509	1,557
Transportation Enhancements	685	719
Intercity passenger rail capital investments	0	468
Transportation & System Preservation	35	52
Total	8,014	9,117

! ***Federal Aviation Administration (FAA)* —** The budget includes $11.2 billion for FAA funding for 2001, $1.3 billion (12.9 percent) more than the 2000 level. $700 million of that increase goes to operation and maintenance, which is funded at $6.6 billion for 2001. The budget provides $2.5 billion for facilities and equipment, $450 million (22 percent) above the 2000 level, to improve and modernize the national air traffic control system. The budget includes $2.0 billion for grants-in-aid for airports, $54 million above the 2000 enacted level. However, the availability of that funding is contingent on Congress reauthorizing the grants program, which expired at the end of 1999.

! ***New Aviation User Fees* —** The President's budget includes $965 million in new aviation user fees for 2001 and $8.9 billion over 2001-2005. The budget assumes that these service-based charges will increase over time as aviation excise taxes, such as the passenger ticket tax, are reduced. FAA budgetary resources for each year will equal the combined amount of fees and taxes collected during the prior year.

! ***Federal Railroad Administration (FRA)* —** The budget provides $1.2 billion for FRA for 2001, $439 million (59.3 percent) more than the 2000 level. This significant increase is mostly due to the President's redistribution of $468 million of "revenue aligned budget authority" to Amtrak for rail capital improvements. This sum, when combined with the $521 million elsewhere in the budget for Amtrak, brings total federal funding for the railroad to $989 million, compared to $571 million for 2000. Of the total amount provided to FRA for 2001, $103 million is offset by new rail user fees.

Function 450: Community and Regional Development

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	11.5	12.3	12.3	12.5	12.8	13.1	63.0
	O	11.6	10.9	11.0	10.5	10.7	10.3	53.4
Mandatory	BA	-0.3	-0.1	1.6	0.1	0.5	$0.1	2.2
	O	-0.5	-0.7	-0.7	-0.7	-0.8	-0.9	-3.9
Total	**BA**	**11.2**	**12.2**	**13.9**	**12.6**	**13.3**	**13.2**	**65.2**
	O	**11.1**	**10.2**	**10.3**	**9.8**	**9.9**	**9.4**	**49.5**

The President's 2001 budget includes $12.2 billion for the Community and Regional Development function, a $1.0 billion increase over last year's level. Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

! ***Empowerment Zones and Enterprise Communities*** — The Empowerment Zone program selects communities with high unemployment and poverty rates and provides them with tax incentives and grants as part of ten-year revitalization plans. Eleven empowerment zones and 95 enterprise communities were designated in 1994 during "Round I" of the program and 15 empowerment zones and 20 empowerment communities were designated in 1999 during "Round II" of the program. The President's budget establishes "Round III" of the program by creating ten new empowerment zones.

Last year, Rounds I and II received $70 million in appropriated funding. The President's budget increases funding for Rounds I and II to $165 million, providing a $95 million (135 percent) increase, and changes the funding from discretionary to mandatory. The budget does not provide mandatory or discretionary funding for Round III. The budget provides $4.4 billion in tax expenditures for the three rounds over ten years. The major components of the tax expenditures are as follows: (1) a 20 percent wage credit through 2009 for Round

I, II, and III empowerment zones; (2) a $35,000 investment deduction for small businesses above the current $20,000 deduction for Round II and III empowerment zones and enterprise communities; (3) local government financing of tax-exempt bonds on behalf of empowerment zones for Rounds II and III; and (4) a Brownfields tax incentive to allow developers to expense certain clean-up costs for Round I, II, and III empowerment zones and Round I enterprise communities.

! ***Community Development Block Grants (CDBG)*** **—** Community Development Block Grants provide funds for programs and activities for low- and moderate-income communities. The President's budget provides $4.8 billion for the CDBG program, a $100 million increase over the 2000 level.

! ***Economic Development Administration*** **—** The Economic Development Administration (EDA) works to create jobs and implement comprehensive economic development strategies in distressed communities. The President's budget provides $437 million for EDA, a $49 million (13 percent) increase over the 2000 level. This $49 million increase goes toward funding projects to address specific economic development needs of Native Americans.

! ***Appalachian Regional Commission*** **—** The Appalachian Regional Commission (ARC) focuses on critical development issues on a regional scale. The President's budget provides $71 million for ARC, a $5 million increase over the 2000 level. This increase goes toward doubling ARC's Entrepreneurship Initiative (which funds innovative regional development projects) from $5 million to $10 million.

! ***Department of Agriculture's (USDA) Rural Development Programs*** **—** The President's budget provides $3.4 billion in loans and grants for USDA's Rural Community Advancement Program, a 29 percent increase over the 2000 level. The budget consolidates 12 rural development programs into a Performance Partnership program that can tailor assistance to specific economic needs of each rural community.

! ***Bureau of Indian Affairs (BIA)*** **—** The Bureau of Indian Affairs (BIA) administers over half of the total federal funding for Native American programs and services. The President's budget includes $2.2 billion for BIA, a $300 million (16 percent) increase over the $1.9 billion 2000 level. This funding includes $545 million for education programs, a $43 million (8 percent) increase over the 2000 level. The BIA funding also includes $300 million for school construction and improvements, a 125 percent increase over the 2000 level.

! ***Federal Emergency Management Agency (FEMA) Disaster Relief*** **—** The President's budget includes $3.6 billion for FEMA disaster relief programs, a $400 million increase over the 2000 level. This funding includes $2.6 billion in contingent emergency funding and

$1 billion in non-emergency assistance. The President's budget allows FEMA to use up to $134 million in new funding to update and modernize FEMA's inventory flood maps. The new funding for the flood map modernization plan is to be derived from two new sources: (1) $104 million to be generated from map license fees; and (2) up to $30 million in obligations from the Disaster Relief Fund. The President's budget also allows FEMA to obligate an additional $50 million from the Disaster Relief Fund for buyouts of insured properties with a history of repetitive flooding.

! ***Small Business Administration (SBA) Disaster Loans*** — The President's budget provides $296 million for the Small Business Administration's (SBA) disaster loan program, which has a five-year average loan volume of $871 million. This funding represents a $20 million (7 percent) increase over the 2000 level. The Administration funds the disaster loan program entirely with discretionary non-emergency appropriations.

Function 500: Education, Training, Employment, and Social Services

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	44.4	61.5	61.6	62.3	63.4	64.6	313.4
	O	52.2	54.9	59.9	61.5	62.6	63.6	302.6
Mandatory	BA	11.2	12.1	14.0	15.6	16.4	17.6	75.6
	O	11.2	12.6	13.7	15.4	16.0	17.0	74.7
Total	**BA**	**55.6**	**73.7**	**75.6**	**77.9**	**79.8**	**82.1**	**389.1**
	O	**63.4**	**67.5**	**73.7**	**76.9**	**78.6**	**80.6**	**377.2**

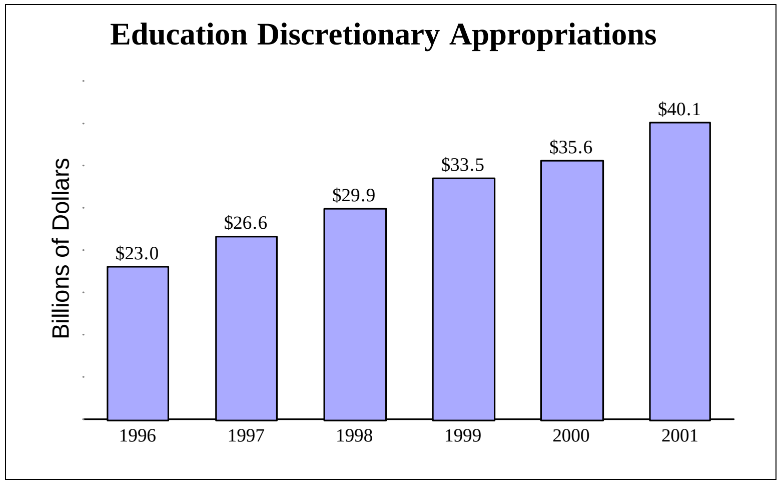
Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor.

The 2000 level of $44.4 billion does not accurately depict how much is available for education, training, and social service programs that year because last year Congress artificially reduced the 2000 funding by pushing $10.5 billion in budget authority from 2000 to 2001 (called an advance appropriation). To make the 2000 figures comparable with figures for 2001 and later years, $10.5 billion should be added to the $44.4 billion shown for 2000 discretionary budget authority.

Thus, using comparable overall programmatic funding levels, the 2001 level of $61.5 billion in discretionary budget authority represents an increase of $6.6 billion, or 12.0 percent, over the 2000 program level of $54.9 billion.

Within this function, President Clinton's budget provides $40.1 billion in discretionary funding for education, an increase of $4.5 billion (12.6 percent) over the 2000 level. It includes $4.6 billion for mandatory programs, a decrease of $2.3 billion relative to baseline projections due to reducing payments to banks in the student loan program and recalling federal reserves held by guaranty agencies. In addition, the budget includes several tax cuts to benefit education, including a new College Opportunity Tax Cut that provides a 28 percent tax deduction or tax credit on up to $10,000 of tuition and fees for any postsecondary education. This tax cut will cost $30 billion over ten years. The budget also provides new federal tax credits to pay interest on approximately $25 billion in bonds for local communities to build or renovate school facilities, at a cost of $3.7 billion over five years. (See the discussion in *Revenues* for more details.)

The budget discontinues funding for several large education programs, including two that were slated to end this year (the School-to-Work Opportunities program and Goals 2000) that received $513 million for 2000. The budget in essence replaces two other programs (Eisenhower Professional Development and Innovative Education Program Strategies grants) that received $701 million last year with a new $690 million Teaching to High Standards state grant program.



Elementary and Secondary Education

! ***Reduce Class Size*** — The President's budget provides $1.75 billion to fund the third year of the President's initiative to improve educational results by reducing class sizes in the early grades to 18 students per class. This additional funding of $450 million above the 2000 level will fund as many as 49,000 teachers, almost half the President's goal of hiring 100,000 teachers over seven years. The budget requires localities, except for those with high levels of poverty, to provide a 35 percent match for any funds they receive in excess of their 1999 allocation.

! ***Renovate Schools*** — The budget provides $1.3 billion in loans and grants to high-poverty, high-need school districts with little or no ability to fund urgent repairs. This federal money will leverage nearly $6.7 billion to help about 8,300 renovation projects.

! ***Expand After-school Programs*** — The budget includes $1.0 billion for 21st Century Community Learning Centers, more than double the 2000 level. This is sufficient to allow each low-performing school to provide extended learning services to all their students.

! ***Special Education*** — The budget increases special education funding from the 2000 level of $6.0 billion to $6.4 billion. State grants receive $5.3 billion, an increase of $290 million.

! ***Improve Teacher Quality*** — The budget includes a program of $1.0 billion to improve the quality of instruction in classrooms. It includes: (1) $690 million for *Teaching to High Standards*, new state grants (replacing Eisenhower Professional Development state grants and Title III of Goals 2000) to promote professional development; (2) $75 million for

Hometown Teacher Recruitment for high-need communities; (3) $50 million for *Higher Standards, Higher Pay* for grants to high-poverty districts to help attract and retain good teachers through better pay; (4) $50 million for *Teacher Quality Incentives* to reward districts that reduce the number of teachers teaching outside their subject area; (5) $40 million for a *School Leadership* initiative to provide professional development to current and prospective principals and superintendents; (6) $30 million to train early childhood educators serving high-poverty areas; and (7) $25 million for *Transition to Teaching* to recruit mid-career professionals to teach in high-need subject areas and high-need schools.

- ***Education for the Disadvantaged (Title I)*** — The budget provides $9.1 billion for 2001 for programs to help children in high-poverty school districts, an increase of $449 million over the 2000 program level. The Title I state grants program receives $8.4 billion, an increase of $416 million over the 2000 level of which $250 million is focused on holding schools accountable for results. Another Title I program provides $410 million for migrant education (an increase of $33 million).

- ***Educational Technology*** — The budget provides $903 million to expand access to educational technology, an increase of $137 million (17.9 percent) above the 2000 level. This funding includes: (1) $450 million for the Technology Literacy Challenge Fund to help schools incorporate technology into curricula (an increase of $25 million); (2) a new $170 million *Next Generation Technology Innovation* program (that replaces the Technology Innovation Challenge Grants and the Star Schools programs, which received $197 million for 2000) to develop technology to improve teaching; (3) $150 million to train teachers (double the 2000 level); and (4) $100 million for technology centers in low-income neighborhoods (more than three times the 2000 level).

Selected New Education Programs

- $1.3 billion: school renovation program
- $1.0 billion: teacher quality initiatives
- $120 million: smaller, safer high schools
- $50 million: reward states that improve student achievement
- $40 million: Dual Degree for Minority-Serving Institutions program
- $35 million: College Completion Challenge Grants

- ***Comprehensive School Reform*** — The budget includes $240 million for school reform demonstration grants for schools using research-based improvement programs (an increase of $20 million), including $190 million for Title I schools.

- ***Support Public School Choice*** — The budget increases funding to expand public school choice to $305 million, $50 million above the 2000 level. This includes $175 million for charter schools (up $30 million), level funding of $110 million for magnet schools, and $20 million for new *Opportunities to Improve Our Nation's Schools (OPTIONS)* grants to implement new approaches to public school choice.

- ***Create Smaller High Schools*** — The budget includes $120 million for a new initiative to create smaller and safer learning environments in about 700 of the largest high schools. It offers competitive grants to school districts to divide larger schools into smaller units. The initiative expands on the $45 million provided for 2000 for Smaller Learning Communities.

- ***Increase Student Achievement*** —The budget provides $50 million for a new *Recognition and Reward* program for states that improved student achievement in math and reduced the achievement gap between high- and low-performing students.

- ***Safe and Drug-Free Schools*** — The budget provides $650 million for this program, an increase of $50 million to cover $40 million in new Safe Schools/Healthy Students grants and $10 million for Project SERV to assist communities affected by violence.

- ***Bilingual and Immigrant Education*** — The budget increases funding for bilingual and immigrant education programs from $406 million to $460 million, up 13.3 percent over the 2000 level. About half of the increase is for professional development for teachers whose students have limited English proficiency.

- ***Impact Aid*** — The budget provides $770 million to support school districts affected by federal activities, a decrease of $136 million. Children are covered if they both live on *and* have a parent working on federal property, but not just one or the other, or if they live on Indian land. The budget also eliminates payments made to school districts solely because federal property was removed from their tax base years ago.

Adult and Vocational Education, and Research

- ***Adult and Vocational Education*** — The budget increases adult education funds to $556 million, $86 million above the 2000 level. The budget freezes funding for vocational education programs at $1.2 billion.

- ***Research*** — The budget increases funding for research, development, and dissemination by $30 million, to $199 million for 2001.

Postsecondary Education

Through grants and loans, the budget makes available $54.2 billion in aid to 8.6 million students.

- ***Pell Grants*** — The budget provides $8.4 billion (up $716 million or 9.4 percent from the 2000 level) and increases the maximum award from $3,300 to $3,500 to help the 3.9 million Pell Grant recipients afford college.

- ***GEAR UP*** **—** The budget includes $325 million, an increase of $125 million (62 percent) from the 2000 level, to provide mentoring and tutoring services to help 1.4 million students prepare to go to college.

- ***College Preparation and Completion*** — The budget provides $725 million for TRIO programs (up $80 million from the 2000 level) to help motivate and prepare over 760,000 students to attend and succeed in college, including $35 million for a new *College Completion Challenge Grants* initiative to support students at risk of dropping out. The budget also includes $40 million for new *Dual Degree Programs for Minority-Serving Institutions* to help about 3,000 students receive degrees from both a minority-serving institution and a partner institution in a field where minorities are under represented.

- ***Work-study and Other Campus-based Programs*** — The budget provides $1.9 billion for campus-based programs, an increase of $167 million (9.9 percent) over the 2000 level. This total includes: (1) $1.0 billion for the Work Study program (up $77 million from the 2000 level); (2) $691 million for Supplemental Educational Opportunity Grants (up $60 million) to help 1.2 million students, 64,000 more students than in 2000; and (3) level funding to provide Perkins Loans at a volume of $1.1 billion.

- ***Student Loans*** — The budget includes provisions to reduce costs in the Federal Family Education Loan and the Direct Loan programs. These changes reduce program spending by $2.3 billion in 2001 and $3.8 billion over 2001-2005 relative to a baseline projection of current law. They include: (1) reducing lender subsidies by 31 basis points to compensate for a change in law last year that indexes lender subsidies to a different market interest rate that is both higher and less risky for lenders ($235 million savings in 2001); (2) eliminating interest subsidy payments to lenders for certain loans funded through tax-exempt securities ($94 million savings in 2001); (3) reducing the percentage that guaranty agencies retain from collections of defaulted loans from 24 percent to 18.5 percent ($220 million savings in 2001), and to 12 percent on defaulted loans that are converted to Consolidation Loans ($428 million in savings in 2001); and (4) recalling additional reserve funds held by guaranty agencies ($1.3 billion savings in 2001).

Employment and Training

Overall, the budget provides $6.2 billion for discretionary training and employment services for 2001. This amount reflects a $651 million (11.8 percent) increase above the 2000 program level. The budget includes a focus on services to dislocated workers, noncustodial parents, and youth.

- ***Welfare to Work Grants*** **—** The budget changes the Welfare-to-Work program in two ways. First, it extends the authority for spending program funds from three to five years, thereby allowing grantees more time to spend existing program funds. This change reduces spending by a total of $550 million in 2000 and 2001 and increases spending over the 2002-2004 period by an equal amount as states slow down upfront spending and shift it to future years. The budget also rescinds the 2000 performance bonuses, saving $15 million in 2001 and $50 million over three years. The mandatory Welfare-to-Work program was initially created by the Balanced Budget Agreement (BBA) and was funded at $1.5 billion each year for 1998 and 1999. This program is designed to help states and local communities move welfare recipients who are hardest to employ into permanent, unsubsidized jobs.

! ***Fathers Work/Families Win*** — The budget creates a new Fathers Work/Families Win program and provides $255 million for 2001. This program will assist low-income working families obtain employment, improve skills, and increase earnings, with an emphasis on noncustodial parents.

! ***Trade Adjustment Assistance (TAA)*** — The budget includes several changes to TAA similar to the ones proposed last year. Altogether, these changes increase costs by $31 million in 2001 and $459 million over five years, relative to a baseline projection of spending under current law. Of the total five-year costs, roughly half ($217 million) are associated with increased costs for training and relocation services and fall within Function 500. The remaining costs are for income support and cash assistance (see *Function 600 (Income Security*) for details). The budget consolidates the TAA and NAFTA-TAA programs and extends the consolidated program through September 30, 2005. It also extends eligibility for TAA to people losing their jobs due to shifts in production abroad (assistance is currently limited to shifts to Canada or Mexico), raises the cap on training expenses, and conforms the rules of the two programs.

! ***Alien Certification Fees*** — The budget creates a new $1,500 fee for applications filed by employers for permanent alien certification. This mandatory fee would be used for new mandatory spending for training and employment services, grants to states, and program administration, which were previously funded through discretionary appropriations. This fee generates $138 million in receipts in 2001 and $626 million over fives years, and mandatory spending associated with this fee increases by $36 million in 2001 and $463 million over five years.

! ***Dislocated Workers*** **—** The budget provides $1.8 billion for services to dislocated workers for 2001, an increase of $181 million (11.4 percent) above the 2000 level. This funding will support 984,000 participants by providing readjustment services and job search assistance and training to help dislocated workers quickly find new jobs, including workers displaced by trade and related causes.

! ***Youth Formula Grants*** **—** The budget provides $1.0 billion for 2001 for youth programs consolidated by the Workforce Investment Act (including the former Job Training Partnership Act (JTPA) youth program and the Summer Youth employment and training program). This funding level reflects an increase of $22 million (2.1 percent) above last year's level and will assist about 612,300 youth.

- ***Youth Opportunity Grants —*** The budget provides $375 million for Youth Opportunity Grants for 2001, an increase of $125 million (50.0 percent) above the 2000 funding level.

- ***Job Corps —*** The President's budget provides $1.4 billion for 2001 for Job Corps, $35 million (2.6 percent) more than the 2000 level. This level funds 122 centers nationwide and supports the enrollment of roughly 73,000 new students.

- ***Community Service Employment for Older Americans —*** The budget provides $440 million for this program for 2001, the same as the 2000 level, which will serve about 92,000 older workers.

- ***Employment Service/One-Stop Career Centers —*** The budget provides $1.0 billion for 2001 for the Employment Service, an increase of $62 million above the 2000 level. This includes $154 million for One-Stop Career Centers, $34 million more than the 2000 level.

Social Services

- ***Head Start*** — The budget significantly increases funding for Head Start, providing $6.3 billion for 2001, an increase of $1.0 billion (18.9 percent) above the 2000 funding level. This increase will serve an additional 70,000 children, including 10,000 infants and toddlers in Early Head Start. Under the 2001 funding level, Head Start enrollment increases to 950,000, moving further toward the President's goal of serving one million children in Head Start by 2002. The budget also maintains the advance appropriation of Head Start funds from last year's budget, providing $1.4 billion in advance for 2002 (see also *Function 600*).

- ***Social Services Block Grant (SSBG)*** — The budget includes $1.8 billion for the mandatory SSBG (Title XX) for 2001, a $75 million increase above current law and the same funding level as 2000. SSBG entitlement funds are distributed to states by formula and used to provide a wide range of social services, usually to low-income families, including child care, child welfare, elder care, drug abuse prevention and treatment activities, employment services, and services for the disabled. The budget earmarks $25 million of the 2001 funding for second-chance homes for teen parents and their children.

- ***Foster Care and Independent Living Programs*** — The budget provides $35 million in mandatory supplemental funds for the Independent Living Program for 2000. This amount together with the $105 million already appropriated for 2000 fully fund the foster care and adoption assistance program.

- ***Runaway and Homeless Youth* —** The budget increases funding for runaway and homeless youth services by $10 million (15.6 percent), providing a total of $74 million for 2001.

- ***Corporation for National and Community Service/AmeriCorps* —** The budget includes $852 million for the Corporation for National and Community Service for 2001, an increase of $120 million (16.4 percent) above the 2000 program level. AmeriCorps receives $73 million, the largest share of this increase.

- ***Community Services Programs* —** The budget provides $540 million for Community Services Programs for 2001, $53 million (8.9 percent) below the 2000 funding level. Funding for the Community Services Block Grant falls to $510 million, $18 million less than the 2000 level. The budget includes $25 million (more than double the 2000 level) for Individual Development Accounts, which were started in 1999 to help low-income people save for a home, postsecondary education, or a business. It does not fund the following programs which were funded at $50 million for 2000: Community Economic Development, National Youth Sports, Rural Community Facilities, and Community Food and Nutrition, although states can continue to support these services through use of the Block Grant.

- ***Administration on Aging* —** The budget increases funding for the Administration on Aging to $1.1 billion for 2001, an increase of $151 million (16.2 percent) above the 2000 level. Most of this increase ($140 million) occurs within the budget for Supportive Services, primarily for caregiver activities.

- ***Violence Against Women* —** The budget provides $134 million for the Administration for Children and Families' Violence Against Women programs for 2001, an increase of $16 million (13.6 percent) above the 2000 level. Of the total amount, $117 million provides grants for battered women's shelters.

Function 550: Health

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	33.8	35.0	34.8	35.2	36.1	36.8	177.9
	O	31.0	33.3	34.9	34.9	35.5	36.2	174.9
Mandatory	BA	124.8	135.7	146.4	160.3	175.4	191.9	809.6
	O	123.3	133.4	146.0	160.3	175.6	191.2	806.6
Total	**BA**	**158.6**	**170.6**	**181.2**	**195.5**	**211.4**	**228.7**	**987.5**
	O	**154.2**	**166.7**	**180.9**	**195.3**	**211.2**	**227.4**	**981.5**

In Function 550, discretionary programs include most federal programs that provide direct health care services. Other health programs in the function fund national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP). For 2001, NIH funding represents over half (53.7 percent) of all discretionary funding and Medicaid accounts for 93.1 percent of the mandatory spending in Function 550.

For 2001, President Clinton's budget provides $35.0 billion in budget authority for discretionary programs in Function 550, 1.2 billion (3.5 percent) over the 2000 level. For 2002, the budget decreases discretionary funding by $200 million below the 2001 level. Thereafter, funding increases slightly (1-2 percent, annually). For mandatory programs, the budget increases projected spending by a net of $1.1 billion for 2001, relative to a baseline projection of current law. Over five years (2001-2005), the budget increases projected spending by a net $27.1 billion, and by a net of $124.9 billion over ten years (2001-2010).

Growth in Medicaid Spending

According to the Office of Management and Budget (OMB), federal Medicaid spending rose dramatically, at an average annual rate of 25.0 percent, from 1989 through 1992. This unprecedented growth was primarily due to increased spending for disproportionate share hospitals (DSH) payments. Several DSH payment reforms were enacted by Congress and the growth in spending slowed considerably. In 1993, growth in spending slowed to less than 12 percent, followed by 8 percent in 1994. The growth in Medicaid spending continued to decline to 3.9

percent in 1997.

These rates are the lowest growth rates since the early 1980s. This decline in Medicaid spending growth is due to several factors, including federal legislative limitations (e.g. cuts and caps on all DSH payments), a decline in the projected growth of Supplemental Security Income caseloads, higher employment, and state efforts to control costs (e.g. through the implementation of managed care).

In 1999, Medicaid spending increased by 6.7 percent over 1998. The recent growth in the Medicaid programs is due largely to higher reported administrative costs. Administrative costs grew 19 percent from 1999 over 1998, compared to 6.6 percent growth in benefit payments.

For future years, OMB's growth projections as well as those of the Congressional Budget Office (CBO) are higher than the exceptionally low rates of the late 1990s. For 1999-2005, OMB projects Medicaid spending to increase at an average annual rate of 8.7 percent and CBO projects an average annual increase of 8.0 percent.

Medicaid and the State Children's Health Insurance Program (S-CHIP)

President Clinton's 2001 budget increases spending for Medicaid and S-CHIP by a net of $26.2 billion over five years (2001-2005), and by a net of $123.7 billion over ten years (2001-2010), relative to a baseline projection of current law.

! ***Interaction with Medicare Initiatives*** — The net spending numbers include Medicaid spending resulting from Medicare-related initiatives in the budget. For example, the budget expands Medicare benefits by creating a drug benefit with significant cost-sharing requirements for beneficiaries. The budget provides Medicaid assistance to low-income seniors to protect them from the effects of Medicare's cost-sharing requirements. This Medicare expansion results in higher Medicaid spending than would otherwise occur and accounts for most of the increased Medicaid spending related to the Medicare initiatives.

! ***Affordable Family Health Insurance Option*** — This initiative is the centerpiece of the President's plan to improve the affordability of health insurance for at least five million Americans and expand access to health insurance for millions of others.

  The budget builds on the State Children's Health Insurance Program (S-CHIP) by giving states a new coverage option, the FamilyCare Program, for the parents of children who are eligible for S-CHIP or Medicaid. State spending for the FamilyCare Program is matched by the federal government at the same rate as S-CHIP, rather than Medicaid's lower federal matching rate. This option is expected to provide health coverage to four million of the 44 million who are currently uninsured.

! *Simplified Enrollment of Children in Medicaid and S-CHIP* — The budget removes administrative barriers to program enrollment, simplifies procedures, and requires states to conform the enrollment procedures for Medicaid and S-CHIP. The budget allows the school lunch program to share eligibility information with Medicaid and expands the type of sites permitted to enroll children in Medicaid and S-CHIP.

! ***Health Insurance Options for Those with Unique Coverage Barriers*** **—** The budget creates several coverage options to expand access to health care. The budget: (1) allows states to enroll people ages 19 and 20 in Medicaid, S-CHIP, or the new FamilyCare Program; (2) makes permanent the requirement to provide Medicaid for one year to families in transition from welfare to work; (3) restores the state option to cover some legal immigrants (children and pregnant women) under Medicaid and S-CHIP regardless of their date of entry into the U.S.; and (4) requires states to cover disabled legal immigrants who qualify on the basis of the budget's restoration of their Supplemental Security Income (SSI) benefits. (See *Function 600* for SSI discussion.)

! ***Expand Opportunities for Immediate Medicaid and S-CHIP Benefits for Children and Pregnant Women*** **—** To improve outreach, the budget gives states the option to expand the types of entities permitted to make children and pregnant women immediately eligible (presumptive eligibility) for Medicaid or S-CHIP benefits. Entities qualified to make this determination could include schools, clinics, or child care centers.

! ***Expanded Coverage*** **—** The budget gives states the option of providing Medicaid benefits for treatment to uninsured women diagnosed with breast or cervical cancer through the Centers for Disease Control and Prevention's (CDC) early detection program. In addition, the budget requires states to pay for prescription and non-prescription smoking cessation drugs.

Highlights of Medicaid Reductions

! ***Reduce Administrative Costs*** **—** The budget reduces each state's Medicaid grant by the amount of Medicaid-related costs that were previously charged to the former AFDC program. States are also given flexibility to use funds from the Temporary Assistance for Needy Families (TANF) block grant to cover shared TANF-Medicaid costs. This reduces Medicaid spending by $2.1 billion over five years (2001-2005).

! ***Reduce Costs of Generic Drugs*** **—** The budget requires generic drug manufacturers, not just brand name manufacturers, to pay an additional dollar-for-dollar rebate to the Medicaid program if they increase the price of their drugs in excess of increases in the consumer price index-urban (CPI-U). This reduces Medicaid spending by $265 million over five years (2001-2005).

Securing Health Benefits for Retired Coal Miners and their Families

The budget ensures the continuation of health benefits to retired coal miners and their families by securing the solvency of the United Mine Workers of America (UMWA) Combined Benefit Fund. This long-term solution to the solvency of the UMWA Combined Benefit Fund builds on action taken last year by Congress and the Administration to stabilize it. Without further action, the lifetime health benefits guaranteed to coal miners and their families cannot be fully preserved. The budget provides $343 million to the UMWA Combined Benefit Fund over ten years (2001-2010).

Health Programs Subject to Annual Appropriations

! ***National Institutes of Health (NIH)*** — President Clinton's 2001 budget funds NIH at $18.8 billion, an increase of $1 billion (5.6 percent) over the 2000 level. The budget repeals current law that prohibits NIH from using $3 billion of its 2000 appropriation until the last day of the fiscal year.

  For 1999 and 2000, Congress increased NIH funding by 15 percent per year. The President continues to state that his goal is to increase NIH funds by 50 percent over five years (1999-2003). The research community is seeking a 100 percent increase over the same time frame. NIH represents over half (54 percent) of all discretionary funding for 2001 in Function 550.

! ***Ryan White AIDS Programs —*** For 2001, the budget funds Ryan White AIDS programs at $1.7 billion, an increase of $125 million (7.8 percent) over the 2000 level.

! ***Title X Family Planning —*** The budget funds Title X family planning programs at $274 million for 2001, an increase of $35 million (14.6 percent) over the 2000 level.

! ***Maternal and Child Health (MCH) Block Grant —*** For 2001, the budget funds the MCH block grant at $799 million, the same as the 2000 level. The budget repeals a provision of current law that prohibits the parent agency for the MCH block grant from using $450 million of the 2000 appropriation until the last day of the fiscal year.

! ***Health Professions Programs —*** For 2001, the budget funds health professions programs at $298 million, a decrease of $44 million (12.9 percent) below the 2000 level. The 2001 funding is divided in the following manner: (1) $103 million for training for diversity, an increase of $10 million (10.7 percent) over the 2000 level; (2) $80 million for children's hospitals graduate medical education, double the 2000 level of $40 million; and (3) $115 million for other health professions programs, a decrease of $94 million (45.0 percent) below the 2000 level.

- ***Ricky Ray Hemophilia Relief Fund* —** For 2001, the budget includes $100 million to fund the second year of the Ricky Ray hemophilia compensation program. These funds compensate the persons, or families of persons, with hemophilia who have HIV/AIDS as result of blood transfusions. The administrative requirements to review compensation claims are currently being established.

- ***Health Care Access for the Uninsured* —** The budget provides $125 million for 2001, an increase of $100 million (400 percent) over the 2000 level, for grants to community providers of services to the uninsured.

- ***Community Health Centers* —** For 2001, the budget funds community health centers serving low-income and uninsured people at $1.1 billion, an increase of $50 million (4.9 percent) over the 2000 level.

- ***Substance Abuse and Mental Health Services Administration (SAMHSA)* —** The budget funds SAMHSA at $2.8 billion for 2001, an increase of $171 million (6.4 percent) over the 2000 level. Mental health activities are funded at $732 million, an increase of $100 million (15.8 percent) over the 2000 level. Substance abuse activities are funded at $2.0 billion, an increase of $82 million (4.2 percent) over the 2000 level. The budget repeals a provision of current law that prohibits SAMHSA from using $200 million of its 2000 appropriation until the last day of the fiscal year.

- ***Centers for Disease Control and Prevention (CDC)* —** For 2001, the budget funds CDC at $3.2 billion, an increase of $202 million (6.7 percent) over the 2000 level. Because of transfers from other accounts and agencies, CDC's program level for 2001 is $3.5 billion, an increase of $195 million (5.8 percent) over the 2000 level. The budget repeals a provision of current law that prohibits CDC from using $500 million of its 2000 appropriation until the last day of the fiscal year.

- ***Childhood Immunizations* —** For 2001, the budget provides $999 million. This includes $530 million in discretionary funds appropriated to CDC, and $469 million in Medicaid funds for the Vaccines of Children (VCF) programs. The budget uses $10 million of CDC's 2001 funds to purchase vaccines to immunize underinsured children through the public health system.

- ***Food and Drug Administration (FDA)* —** FDA's funding level for 2001 is $1.2 billion, an increase of $138 million (13.1 percent) over the 2000 level. In addition to providing these funds, the budget imposes user fees of $203 million for 2001, an increase of $25 million over the 2000 level. New fees for food additives, food export, and medical devices are included in the budget.

! ***Food Safety and Inspection Service (FSIS) —*** For 2001, the budget funds FSIS at $154 million and levies user fees of $534 million on the meat, poultry, and egg industries to fund FSIS inspection activities. The budget shifts the entire cost of in-plant inspection for meat, poultry, and egg products from the federal government to private industry. The user fee proposal is identical to one included in last year's budget and rejected by the Congress.

! ***Federal Employees Health Benefits program (FEHBP) —*** The budget instructs OPM to work harder to control the growth of FEHBP premiums by leveraging the purchase power of the federal government in order to enable OPM to offer improved dental benefits. The budget provides to federal employees the same coverage for mental and substance abuse as for any other health condition and continues the requirement that the FEHBP plans offer contraceptive coverage.

! ***Indian Health Service (IHS) —*** The budget funds IHS at a program level of $3.1 billion for 2001, an increase of $229 million (8.1 percent) over the 2000 level. Of this amount, $2.6 billion is appropriated directly to IHS. The remaining program funds are derived from collections or mandatory transfers to the account. For 2001, the health services program level is $2.7 billion, an increase of $195 million (7.8 percent) over the 2000 level. The facilities program level is $354 million, an increase of $34 million (10.6 percent) over the 2000 level.

! ***Occupational Safety and Health Administration (OSHA) —*** For 2001, the budget funds OSHA at $426 million, an increase of $44 million (11.5 percent) over the 2000 level.

! ***Mine Safety and Health Administration (MSHA) —*** The budget funds MSHA at $242 million for 2001, an increase of $14 million (6.1 percent) over the 2000 level.

2001 Proposed Medicaid Legislation

(dollars in millions)

Medicaid Proposals	1-Year 2001	5-Years 2001-2005
Savings Proposals:		
Cost Allocation	$-260	$-2,063
Child Support Enforcement	-10	-170
Generic Drug Rebate	-35	-265
Provide Beneficiary with New Enforcement Tools	-10	-50
Publicize the AMP	-20	-400
Medicaid Interactions with Medicare	-20	-100
Subtotal: Mandatory Medicaid Savings	-355	-3,048
Cost Proposals:		
Restore Benefits to Legal Immigrant Children/Pregnant Women	61	670
Restore SSI to Qualified Immigrants (5-year ban, no deeming)	0	513
Asthma Initiative	50	100
300 percent Eligibility Expansion	15	140
Presumptive Eligibility	15	305
Extend Transitional Medicaid	0	1,550
Family Care Initiative	600	10,200
Medicaid and S-CHIP Age Expansions	114	650
Smoking Cessation with Match	12	66
School Lunch Initiative	5	119
Align Medicaid and S-CHIP Eligibility	126	1,561
Breast Cancer Treatment	15	220
Interactions Among Medicaid Policies	5	95
Interactions with Medicare Drug Benefit Proposal	0	9,331
Subtotal: Mandatory Medicaid Costs	1,018	25,520
Total Mandatory Medicaid	**663**	**22,472**

Source: Department of Health and Human Services

2001 Proposed State Children's Health Insurance Program (S-CHIP) Legislation

(dollars in millions)

S-CHIP Proposals	1-Year 2001	5-Years 2001-2005
FamilyCare Program	$200	$3,600
Restore S-CHIP to Legal Immigrant Children	2	25
Age Expansion	6	35
Align Medicaid and S-CHIP Eligibility	4	49
School Lunch Initiative	0	6
Total S-CHIP	**$212**	**$3,715**

Source: Department of Health and Human Services

Function 570: Medicare

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	3.1	3.0	3.0	3.0	3.1	3.2	15.2
	O	3.0	3.0	3.0	3.0	3.1	3.2	15.2
Mandatory	BA	203.2	217.2	226.3	239.4	261.6	283.6	1,228.2
	O	199.5	217.6	226.3	239.2	261.9	283.5	1,228.5
Total	**BA**	**206.3**	**220.2**	**229.3**	**242.4**	**264.7**	**286.7**	**1,243.4**
	O	**202.5**	**220.5**	**229.3**	**242.2**	**265.0**	**286.7**	**1,243.6**

Function 570 includes only the Medicare program. Discretionary funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

For 2001, President Clinton's budget provides $3.0 billion in discretionary budget authority for the administration of Medicare, a decrease of $217 million (6.8 percent) below the 2000 level. Thereafter, funds are frozen at the 2001 level through 2003, and funding increases in the outyears (2004 and 2005). However, the budget includes additional resources ($355 million for 2001) by imposing several user fees on providers to augment funding for Medicare administration.

For 2001, the budget decreases mandatory spending by a net of $500 million relative to a baseline projection of current law. Over five years (2001-2005), projected mandatory spending increases by a net of $11.8 billion, and over ten years (2001-2010) projected mandatory spending increases by a net of $62.8 billion.

Growth in Medicare Spending

The growth in Medicare spending has varied widely in the past and more fluctuations are expected in the future. In the early 1990s, Medicare spending grew by an average of 11.1 percent a year from 1990-1995. Since then the rate of spending growth has slowed each year, declining from a high of 8.0 percent in 1996 to 1.5 percent in 1998. In 1999, Medicare spending did not grow at all but instead declined by one percent, the first decline in spending since the inception of the program in 1965.

According to the Congressional Budget Office (CBO), the decline in spending in 1999 reflects two trends that began in the mid-1990s: a slowing of growth in enrollment and the effect of antifraud initiatives on compliance with the program's rules for payments. In addition, the slower growth reflects the reductions in payment rates and other program changes required by the Balanced Budget Act (BBA) of 1997. Most analysts do not expect the rate of growth, or lack of it, to stay at this historically low rate. They generally view the current situation as a short lull before spending begins accelerating again.

For the near term (1999-2005), the Office of Management and Budget (OMB) projects Medicare spending to increase at an average annual rate of 6.7 percent. Over the next decade, CBO projects a higher average annual growth rate of 7 percent in Medicare spending. Through 2003, however, CBO projects a somewhat lower average annual growth rate of 6 percent because most of the changes required by the BBA will be implemented during this time.

Medicare Solvency and the Non-Social Security Surplus

The budget extends the life of the Medicare Part A (Hospital Insurance) Trust Fund to at least 2025 by dedicating $299 billion of the non-Social Security surplus to the Part A Trust Fund over 10 years. The 1999 annual report of the Social Security and Medicare Trustees estimated that the Medicare Part A Trust Fund will be exhausted in 2015 without changes in current law.

Highlights of Major Medicare Initiatives

! ***Prescription Drug Coverage —*** The budget establishes a voluntary outpatient prescription drug benefit available to all Medicare beneficiaries. The drug benefit provides first dollar coverage, pays half of beneficiaries' prescription drug costs up to $2,000 starting in 2003 (up to $5,000 when fully phased-in by 2009), and requires beneficiaries to pay a monthly premium ($26 in 2003, rising to $51 in 2009) in addition to the monthly Part B premium. The new drug benefit increases gross Medicare spending by about $32 billion over five years (2001-2005) and about $160 billion over 10 years (2001-2010).

  For the drug benefit, the budget provides premium and cost sharing protection for seniors with income below 135 percent of poverty, and provides premium assistance to those with incomes between 135 and 150 percent of poverty. Like the existing Medicare cost-sharing protections, these expanded protections for the cost sharing requirements are paid for by Medicaid, and are reflected as mandatory spending in Function 550 (Health).

! ***Reserve Fund for Catastrophic Prescription Drug Coverage —*** The budget portrays a reserve fund ($35 billion through 2010) for catastrophic prescription drug coverage beginning in 2006. However, because the budget reflects no spending on such benefits during this time, the reserve fund currently represents another means of paying down the debt rather than increasing spending on Medicare benefits.

! ***Medicare Buy-in —*** The budget expands health care options for older Americans by: (1) allowing those age 62-64 to pay monthly premiums to buy into Medicare; (2) allowing a similar buy-in for displaced workers age 55-61; and (3) allowing workers age 55 and older whose companies reneged on their commitment to provide retiree health benefits to buy COBRA until age 65. The buy-in increases projected Medicare spending by $980 million over five years (2001-2005). There are no federal costs associated with the COBRA expansion.

! ***Beneficiary Cost Sharing —*** The budget *decreases* some beneficiary cost sharing requirements and *increases* others.

The budget *decreases* beneficiary cost sharing by waiving the *deductible* for hepatitis B vaccinations, colorectal cancer screening, bone mass measurements, prostate cancer, and diabetes self-management benefits. It waives the *coinsurance* for screening mammography, pelvic exams, hepatitis B vaccinations, colorectal screening, bone mass measurements, prostate cancer exams, and diabetes self-management benefits. The elimination of these cost sharing requirements saves beneficiaries $1 billion over five years (2001-2005), and increases Medicare projected spending by a corresponding amount over the same period.

The budget *increases* beneficiary cost sharing by indexing the *Part B annual deductible* to inflation beginning in 2003, and reinstating the 20 percent *coinsurance* for clinical laboratory services. The imposition of these cost sharing requirements costs beneficiaries $2.7 billion over five years (2001-2005), and decreases projected Medicare spending by a corresponding amount over the same period.

! ***Fee-for-Service Modernization —*** The budget provides fee-for-service (traditional) Medicare with a variety of purchasing and quality management tools used in the private sector. The modernization package does the following: (1) creates a preferred provider option; (2) expands the Centers of Excellence demonstration and making it permanent; (3) pays competitively for voluntary disease management services (e.g. telephone consultations); (4) uses competitive bidding and pricing negotiations for Part B services (excluding physicians); and (5) allows the use of competitive contracting for Medicare claim processors. The fee-for-service modernization package reduces Medicare spending by $3.2 billion over five years (2001-2005) relative to baseline projections.

! ***Competitive Defined Benefit (CDB) —*** The budget establishes the CDB to modernize managed care payments by introducing price competition into the payment process in 2003. Implementation of the CDB decreases gross Medicare spending by $1.8 billion over five years (2001-2005).

! ***Reductions in Provider and Insurance Payments —*** The budget reduces the following provider payments: (1) eliminates the physician mark-up for outpatient drugs by limiting

Medicate payment to 83 percent of the average wholesale price; (2) prohibits providers from furnishing partial hospitalization services in a beneficiary's home or other inpatient or residential setting; (3) requires private insurance companies to provide Medicare Secondary Payer information (enables Medicare to act as back-up insurance in certain cases); (4) reduces Medicare's reimbursement rate for Epogen (a drug used by renal dialysis patients) by ten percent; (5) returns to the original phase-in schedule for Medicare + Choice risk adjustment in 2002 (reduces managed care payments to some providers); (6) eliminates the Health Professional Shortage Area (HPSA) bonus payments for non-primary physicians in urban areas; (7) reduces certain lab payments; and (8) reduces Medicare bad debt payments. These cuts decrease gross Medicare spending by $7.3 billion over five years (2001-2005).

! ***Outyear Reductions in Provider Payments —*** The budget extends several provider update reductions included in the BBA. These cuts (so-called BBA extenders) are not as deep as the cuts in the BBA and they are effective for three years (2003-2005). Overall, these cuts decrease gross Medicare spending by $6.4 billion over three years (2003-2005).

Most of the savings ($4.3 billion of the $6.4 billion) result from reducing the update for prospective payment system (PPS) hospitals. The budget imposes two separate updates for PPS hospitals. For urban PPS hospitals, the update is market basket minus 0.8 percentage points. For rural PPS hospitals, the update is more generous at market basket minus 0.4 percentage points. The budget includes reductions in other provider update payments for these three years including, but not limited to, reductions in capital payments, lab payments, and durable medical equipment.

! ***Provider User Fees*** — The budget imposes several new fees on Medicare providers to fund a number of administrative purposes ranging from provider certification to processing of duplicate claims. The fees raise $355 million for 2001, and $1.8 billion over five years (2001-2005). The new fees are for: (1) managed care application and renewal; (2) provider initial certification; (3) provider recertification; (4) paper claims submission; (5) duplicate and unprocessable claims; and (6) nursing home criminal abuse registry. The budget also increases the existing Medicare + Choice fee.

Tax Credits for Affordable Health Care

! ***Health-Related Tax Credits*** — The budget establishes several tax credits to increase access to health insurance. They are: (1) a credit equal to 25 percent of the required premium costs for the Medicare buy-in; (2) a refundable $1,000 credit for disabled workers for impairment-related work expenses; and (3) a refundable $3,000 long-term care credit for the taxpayer, a spouse, or dependent with long-term care needs. (See *Revenues* for further discussion of tax cuts.)

2001 Proposed Medicare Legislation

(dollars in millions)

Medicare Reform Proposals	1-Year 2001	5-Years 2001-2005
Reform Savings Proposals:		
Provider Payment Changes (thru 2005):		
Reduce Hospital Update by 0.8 Percent (urban) & 0.4 percent (rural)	0	-4,300
Reduce PPS-Exempt Hospital Updates	0	-840
Reduce PPS Capital Payments by 2.1 percent	0	-630
Reduce PPS-Exempt Capital Payments by 15 percent	0	-160
Reduce Laboratory Payment Update by CPI Minus 1 percent	0	-180
Reduce Ambulance Update by CPI Minus 1 percent	0	-10
Reduce DME, PEN, and P&O Updates by CPI minus 1 percent	0	-250
Subtotal, Provider Payment Changes	0	-6,370
Fee-for-Service Modernization:		
Medicare PPO Option	0	-1,700
Centers of Excellence	0	-1,185
Disease Management	0	0
Competitive Acquisition	0	-100
Contracting Reform	0	-200
Subtotal, FFS Modernization	0	-3,185
Cost-Sharing Changes:		
Reinstate Cost-Sharing for Laboratory Services	0	-2,400
Index Part B Deductible to CPI	0	-300
Subtotal, Cost-Sharing Changes	0	-2,700
Competitive Defined Benefit:	0	-1,800
Interactions:	+175	+3,005
Subtotal, Medicare Reform Savings	**+175**	**-11,050**
Reform Cost Proposals:		
Prescription Drug Benefit (net impact)	0	+28,780
Eliminate Cost-Sharing for Preventive Services	0	+1,000
Medicare Buy-In	+175	+980
Subtotal, Medicare Reform Costs	**0**	**+30,760**
Total Medicare Reform	**+175**	**+19,710**

continued…

2001 Proposed Medicare Legislation Continued

(dollars in millions)

Other Medicare Legislative Proposals	1-Year 2001	5-Years 2001-2005
Savings Proposals:		
Reduce EPO-Payment by 10 percent	-65	-400
Require Insurers to Provide MSP Data	-40	-800
Reduce Use of Partial Hospitalization Benefit	-30	-250
Clarify Scope of Eligibility for Partial Hospitalization Benefit	-50	-430
Eliminate Physician Mark-up of Outpatient Drugs	-130	-1,190
Reduce Medicare Bad Debt Payments	-340	-2,280
Reduce Lab Payments by 30 percent for Four Lab Tests	-80	-660
Establish National Payment Limit for Orthotics and Prosthetics	-110	-930
Eliminate HPSA Bonus Payments for Non-Primary Care Physicians in urban areas	-30	-190
Return to 2002 Phase-In for Medicare+Choice Risk Adjustment	0	-810
Shift Timing of One Medicare+Choice Payment	0	0
Subtotal, Other Medicare Savings	**-875**	**-7,940**
Cost Proposals:		
Permanently Extend Part A Coverage for Working Disabled	0	+10
Expand Coverage for Immunosuppressive Drugs	+10	+ 35
Subtotal, Other Medicare Costs	**+10**	**+45**
Total Other Medicare	**-865**	**-7,895**
TOTAL 2001 MEDICARE LEGISLATION	**-690**	**+11,815**

Source: Department of Health and Human Services

Function 600: Income Security

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	29.8	41.3	41.3	41.8	42.9	43.8	211.2
	O	41.7	44.2	45.0	46.0	47.1	47.9	230.2
Mandatory	BA	213.7	222.3	236.7	247.8	258.8	270.8	1,236.4
	O	209.5	217.5	232.3	244.1	255.8	268.1	1,217.7
Total	**BA**	**243.6**	**263.6**	**278.0**	**289.7**	**301.7**	**314.6**	**1,447.6**
	O	**251.3**	**261.7**	**277.2**	**290.1**	**302.9**	**316.0**	**1,447.9**

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant.

Discretionary funding for Function 600 for 2001 is $41.3 billion, $11.5 billion (38.6 percent) greater than the 2000 funding level. Nearly all of this increase ($10.1 billion) occurs within the budget for housing assistance, mainly within the Housing Certificate Fund which funds the renewal of expiring Section 8 contracts. The 2001 funding level is higher in part because of the greater funding required to renew all expiring Section 8 contracts. The funding levels also reflect the advance appropriation of $4.2 billion in funds for 2001 and a large recission of housing funds in 2000. Overall, mandatory spending for Function 600 is $8.0 billion higher in 2001, a 3.8 percent increase above the 2000 spending levels.

Major Proposals

President Clinton’s 2001 budget makes a number of changes affecting programs that serve low-income people, with an emphasis on expanding support for working families. It significantly increases funding for child care, Head Start, and housing vouchers; restores SSI and food stamp benefits for certain legal immigrants; and includes measures to increase federal child support collections and payments to custodial families. It also provides tax relief for low-income workers by expanding the Earned Income Tax Credit (EITC) and the Child and Dependent Care Tax Credit.

! ***Child Care*** — The budget contains a child care initiative similar to the ones proposed in each of the past two years. These changes fall within Function 600 and Function 500 (*Education, Training, Employment, and Social Services*) and also affect federal revenues. First, this year's budget increases discretionary funding for the Child Care and Development Block Grant by $817 million, providing a total of $2.0 billion for 2001. These new funds will provide child care subsidies to approximately 150,000 additional low-income children. Second, it funds a new mandatory Early Learning Fund at $600 million a year ($3.0 billion over five years) to make grants to communities for education-related services to children under five years of age.

Child Care: Major Increases for 2001
(budget authority, in millions)

Discretionary	
• Child Care and Development Block Grant	+ $817
• 21st Century Community Learning Centers	+ $547
• Head Start	+ $1,000
Mandatory	
• Early Learning Fund	+ $600
Tax Expenditures	
• Child and Dependent Care Tax Credit	+ $121
• New Tax Credit for Businesses	+ $42

Within the Education function, the budget more than doubles funding for summer and after-school activities under the 21st Century Community Learning Centers, providing an increase of $547 million for a total of $1.0 billion for 2001. It also significantly increases funding for Head Start, providing $6.3 billion for 2001, an increase of $1.0 billion (19 percent) above the 2000 funding level. This increase will serve an additional 70,000 children, including 10,000 infants and toddlers in Early Head Start. Under the 2001 funding level, Head Start enrollment increases to 950,000, moving further toward the President's goal of serving one million children in Head Start by 2002. (See also *Function 500*.)

The budget provides tax relief for working families by expanding the Child and Dependent Care Tax Credit (DCTC). It makes the credit refundable, increases the amount for families earning up to $60,000, and extends a credit to parents who stay at home with an infant. Altogether, these changes cost $121 million in 2001, and $7.5 billion over five years. Of the total five-year cost, $2.9 billion reflects outlays for the newly refundable portion of the DCTC. Finally, the budget creates a new tax credit for private employers that provide child care services to their employees, at a cost of $539 million over five years. (See also *Revenues*.)

! ***Earned Income Tax Credit (EITC)*** —The budget expands the EITC for married couples and larger families by: (1) increasing the maximum credit rate from 40 to 45 percent for families with three or more children; (2) slowing the rate at which the credit phases out from 21 percent to 19 percent for families with two or more children; (3) increasing the point at which the credit begins to phase out by $1,450 in 2000 and 2001, and indexing it thereafter for two-earner married couples; and (4) excluding nontaxable earned income in computing the EITC. These changes cost $2.3 billion in 2001 and $11.5 billion over five years. Of the total five-year cost, $9.9 billion (86 percent) reflects outlays for the refundable portion of the EITC. (See also *Revenues*.)

! ***Benefits for Certain Legal Immigrants*** — The budget restores Supplemental Security Income (SSI), food stamp, and Medicaid benefits to certain legal immigrants who lost eligibility due to the 1996 welfare law. First, it extends SSI and related Medicaid to immigrants who entered the country after the welfare law was enacted (August 22, 1996), and who live in the U.S. for more than five years and become disabled after entry. This change increases spending under the SSI program by $23 million in 2002 and $707 million over five years, relative to a baseline projection of spending under current law. (The associated Medicaid costs are included in the total for Medicaid below.) Second, it restores food stamps to eligible legal immigrants who were in the country at the time of enactment and who subsequently reach age 65 or live with children eligible for food stamps. This restoration increases food stamp spending by $25 million in 2001 and $565 million over five years. Finally, it restores the state option to cover some legal immigrants (the disabled, pregnant women, and children) under Medicaid and the State Children's Health Insurance Program regardless of their date of entry. The Medicaid changes increase spending by $63 million in 2001 and $1.2 billion over five years. (See *Function 550 (Health)* for more details.)

Income Assistance

! ***Child Support Enforcement*** — The budget includes measures to increase federal child support collections and other program changes to pass on to families currently and formerly receiving welfare more of the support collected on their behalf. Altogether, these changes reduce federal costs by $2 million in 2001 and by $141 million over five years, relative to a baseline projection of spending under current law. The budget provides federal matching funds for states that pass through more child support to families receiving TANF and allows states to simplify distribution rules to pay all child support collected on behalf of former welfare recipients to those families. It expands enforcement measures to increase collections from parents who owe past-due child support, such as offsetting Social Security benefits and denying passports. Finally, the budget requires states to review and adjust child support orders for TANF families every three years, eliminates the enhanced match for paternity establishment, and changes the way in which incentive payments are awarded to states.

! ***Supplemental Security Income (SSI)*** — In addition to the restoration of SSI benefits to legal immigrants discussed above, the budget includes two other timing shifts that affect SSI payments but not benefit amounts. First, the budget repeals the delay of the October 2000 SSI payments that was enacted as part of the Balanced Budget Act of 1997, thereby shifting the payment of benefits for that month from 2001 back to 2000. This change increases SSI spending for 2000 by $2.2 billion and reduces 2001 spending by an equal amount. Second, the budget speeds up state reimbursements for SSI supplemental payments administered by the Social Security Administration (SSA). Under current law, states reimburse SSA for federally administered state supplements within five business days after benefits are paid. The Ticket to Work and Work Incentives Act of 1999 requires states to reimburse SSA by the business day before the benefits are paid, beginning in October 2009. The budget makes this change effective October 1, 2002, reducing costs by $311 million in 2002 and $341 over five years. The savings from this provision in 2002 are designated as an offset to discretionary funding.

! ***Supplemental Security Income (SSI) Administrative Expenses*** — The budget increases discretionary funding for SSI administrative expenses from $2.4 billion for 2000 to $2.6 billion for 2001.

! ***Temporary Assistance for Needy Families (TANF)*** — The budget freezes the TANF Supplemental Grants for Population Increases at the 1998 level, reducing TANF costs by $122 million in 2001 and $240 million over 2001-2005. The budget further designates the 2001 savings as a discretionary offset. In 2001, 17 states are eligible for these grants.

Under the budget, TANF spending increases by $208 million in 2001 and by $471 million over five years due to a change in the allocation of Medicaid administrative costs. The budget reduces each state's Medicaid grant by the amount of Medicaid administrative costs that were charged to the Aid to Families with Dependent Children (AFDC) program in a base year and allows states to use TANF funds to cover this adjustment.

! ***Refugee and Entrant Assistance*** — The budget provides $432 million for refugee and entrant assistance, $22 million (4.6 percent) below last year's level. This will fund eight months of benefits for roughly 80,000 refugees and 20,000 Cuban/Haitian entrants.

! ***Low-Income Home Energy Assistance (LIHEAP)*** — The budget maintains funding for LIHEAP at the 2000 level, including $1.1 billion in advance appropriations for 2002 (the same level appropriated in advance for 2001), and $300 million in emergency funds (which are contingent upon their designation as emergency funding).

Food and Nutrition Assistance

The budget provides $4.8 billion for discretionary food and nutrition assistance programs for 2001. This reflects an increase of $223 million (4.9 percent) above the 2000 funding level, including $116 million for WIC, $6 million for a universal school breakfast demonstration program, and $9 million for congregate dining and "meals on wheels" programs for low-income elderly persons. It also includes several mandatory changes to the Food Stamp and Child and Adult Care Food Programs.

- ***Food Stamps* —** In addition to the restoration of food stamp benefits for legal immigrants described above, the budget makes several other changes that affect spending in the food stamp program. First, the budget allows states the option to conform food stamp rules limiting the value of vehicles with the rules used by the TANF program, which are often more generous. This policy increases food stamp program costs by $1 million in 2001 and $661 million over five years, relative to a baseline projection of spending under current law. When fully implemented, 245,000 individuals will benefit from this policy.

  The budget also allows states to conform the definition of "income" for food stamp eligibility purposes with those used in the Medicaid program, costing $5 million in 2001 and $25 million over five years. Finally, the budget achieves food stamp savings from the child support changes described above. Those measures, which increase child support payments to families, reduce food stamp spending by $7 million in 2001 and $170 million over five years, relative to a baseline projection of spending under current law.

- ***Child Nutrition* —** The budget includes $6 million for 2001 for the universal school breakfast demonstration program. This program, authorized as part of the Child Nutrition reauthorization, serves breakfast to all children regardless of family income.

- ***Child and Adult Care Food Programs* —** Through an array of management changes designed to improve oversight in the Child and Adult Care Food Programs, the budget saves $3 million in 2001 and $96 million over five years. The budget prohibits the participation of sponsors of child care centers who have previously mismanaged other government programs and limits the funds that sponsors may retain for administration. The budget also allows states to retain a portion of program funds recovered through audits and reviews, and it funds an evaluation of the program's administrative reimbursement structure.

- ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)* —** The budget increases funding for WIC by $116 million (3 percent), to $4.1 billion for 2001. This funding level will enable WIC to serve 7.5 million low-income women, infants, and children. The budget also includes $6 million to enhance ongoing efforts to promote the use of Electronic Benefit Transfer (EBT) in the WIC program. EBT is being tested statewide in Wyoming, and eight states are expected to have EBT pilot programs for WIC by 2002.

- ***Nutrition Program for the Elderly (NPE)*** — The budget provides $150 million for the NPE for 2001, an increase of $9 million above last year's level, which permits participation growth and a modest increase in the meal reimbursement rate. The NPE provides subsidized meals to persons aged 60 or older at low-income elderly centers and through "meals on wheels" programs.

Housing Assistance

The budget maintains past commitments to ensure that all eligible families receiving assistance continue to do so. It also expands assistance for low-income families by increasing funding for all core housing programs. The budget provides $27.2 billion in discretionary funding for housing assistance programs for 2001. This reflects a substantial increase above the 2000 funding level because of the greater funding needs for Section 8 renewals, the advance appropriation of $4.2 billion in funds for 2000, and the rescission of funds in 2000, as discussed above.

- ***Renewals of Section 8 Expiring Contracts*** — The budget fully funds all renewals of expiring Section 8 rental assistance contracts, providing $13.0 billion in new funding for 2001. This will enable the program to continue to serve the three million families who currently receive rental assistance, either through vouchers administered by Public Housing Authorities or through contracts directly with private landlords.

- ***New Housing Vouchers*** — The budget provides $690 million for 2001 to fund 120,000 incremental housing vouchers, including 60,000 non-targeted vouchers, 32,000 welfare-to-work vouchers, 18,000 homeless vouchers, and 10,000 housing production vouchers. This builds on earlier program expansions that added 50,000 incremental vouchers in 1999 and 60,000 incremental vouchers in 2000.

- ***Homeless Assistance Grants*** — The budget increases funding for Homeless Assistance Grants by $180 million (17.6 percent), providing $1.2 billion for 2001. These grants fund local projects to provide a "continuum of care" that includes outreach, assessment, emergency shelter, and housing aimed at moving homeless individuals and families to permanent housing and jobs.

- ***Housing for the Elderly*** — The budget provides a total of $779 million for elderly housing programs for 2001, an increase of $69 million (9.7 percent) above the 2000 level. This includes $629 million for Elderly Housing Production (Section 202), an increase of $19 million (3.1 percent), and an additional $50 million in new operating subsidies for assisted living facilities.

- ***HOME Investment Partnership Program (HOME)*** — The budget includes $1.7 billion for HOME for 2001, an increase of $50 million (3.1 percent) above the 2000 level. This program finances construction and rehabilitation of multifamily rental housing, improvements to substandard housing for current owners, and assistance to new home buyers. This funding level will assist approximately 103,000 households.

- ***Housing Opportunities for Persons with AIDS (HOPWA)*** — The budget increases funding for HOPWA by $28 million (12.1 percent) to $260 million for 2001. This increase is based on growth in the number of AIDS cases (and the commensurate increased demand for services), and will assist nearly 50,000 units, an increase of 5,100 units. To prevent homelessness, HOPWA provides short-term rental assistance, mortgage assistance, and utility payments for low-income persons with AIDS and their families.

- ***HOPE VI: Revitalization of Distressed Public Housing*** — The budget provides $625 million for HOPE VI for 2001, an increase of $50 million (8.7 percent) above the 2000 level. This program awards grants to local housing authorities to address the problems of poor-quality public housing developments.

Federal Employee Retirement

- ***Repeal of Increased Employee Contribution to Retirement Plans*** — The budget repeals a 1997 deficit reduction provision that increased employee payroll contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for all federal employees beginning in January 1999. The budget restores the employee contribution rates to pre-1999 levels (7 percent for employees covered by CSRS and 0.8 percent for employees covered by FERS), reducing revenues by $1.2 billion dollars from 2001 through 2003.

- ***Buyouts*** — The budget allows agencies to offer government-wide voluntary separation incentives of up to $25,000 to support continuing agency downsizing efforts. Currently, buyout authority is available on an as-needed basis to any federal agency that is downsizing or reinventing, as is the case with the Department of Defense, the Department of Energy, and the Department of Veterans Affairs.

- ***Pension Benefit Guaranty Corporation Fund (PBGC)*** — The budget expands pension coverage, improves benefit portability, and strengthens retirement security for employees covered in private defined-benefit pension plans if single-employer plans terminate or if multi-employer plans are unable to pay benefits.

- ***Black Lung Disability Trust Fund (BLDTF)*** — The budget includes an authorization for refinancing the outstanding BLDTF debt, extends the excise tax levels set to expire on January 2014 of current rates, and provides $1.5 billion to compensate the general fund for the forgone prepayment premiums.

- ***Other*** **—** The budget includes provisions to correct retirement coverage errors, improve human resources management, and eliminate certain retirement inequities.

Unemployment Compensation

- ***Trade Adjustment Assistance (TAA)*** **—** The budget includes several changes to TAA similar to the ones proposed last year. Altogether, these changes increase costs by $31 million in 2001 and $459 million over five years, relative to a baseline projection of spending under current law. Of the total five-year costs, roughly half ($242 million) are associated with increased costs for income support and cash allowances and fall within Function 600. The remaining savings are associated with training and relocation allowances. See *Function 500 (Education, Employment and Training, and Social Services) for more details*. The budget consolidates the TAA and NAFTA-TAA programs and extends the consolidated program through September 30, 2005. It also extends eligibility for TAA to people losing their jobs due to shifts in production abroad (assistance currently limited to shifts to Canada or Mexico), raises the cap on training expenses, and conforms the rules of the two programs.

Function 650: Social Security

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	3.2	3.5	3.5	3.5	3.6	3.7	17.6
	O	3.3	3.6	3.6	3.5	3.6	3.6	17.6
Mandatory	BA	404.9	423.5	444.5	467.0	491.6	518.4	2,345.1
	O	403.3	422.2	443.0	465.4	489.8	516.4	2,336.8
Total	**BA**	**408.0**	**427.0**	**447.9**	**470.6**	**495.2**	**522.0**	**2,362.7**
	O	**406.6**	**425.7**	**446.6**	**468.9**	**493.4**	**520.0**	**2,354.7**

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people and appropriated funding to administer these programs.

President Clinton's budget pays down debt held by the public and, starting in 2011, credits the savings associated with reduced net interest payments to the Social Security trust fund. These allocations from the Treasury to the Social Security trust fund extend its solvency to 2050. Furthermore, half of the allocations from the Treasury are invested in private securities until they make up 15 percent of the trust fund. The investment in private securities provides an additional four years of solvency, extending the date to 2054. (See *Medicare and Social Security Solvency* for further discussion.)

The President remains committed to working with the Congress in a bipartisan fashion to close the rest of the 75-year solvency gap through sensible reforms of the Social Security system. As part of a larger reform plan, the President advocates improving income protections for elderly women who experience high poverty rates relative to the overall elderly population. In addition, the President advocates that an overall Social Security solvency agreement should remove barriers to work that result from the current Social Security earnings test.

! ***Benefit Payments*** **—** The budget does not change Social Security Old Age, Survivors and Disability benefits. The Administration projects that benefits will increase by $21.7 billion (5.0 percent) in 2001. The increase results from more beneficiaries, higher benefits due to higher earnings histories for new beneficiaries, and cost-of-living adjustments of 2.4 percent in January 2000 and an estimated 2.5 percent in January 2001.

- ***Administrative Initiatives*** — The budget provides $3.5 billion in funding for administrative expenses, an increase of $276 million from the 2000 level. This includes a $60 million initiative to continue implementing the Ticket to Work and Work Incentives Improvement Act of 1999. The Social Security Administration (SSA) also will continue its campaign to educate the public about the status of future benefits by sending Social Security Statements to 126 million American workers.

  The budget strengthens SSA's efforts to prevent waste, fraud, and abuse. The budget improves debt collection by implementing recently authorized tools, including administrative wage garnishment, and emphasizes the use of computer matches to identify and eliminate overpayments. Furthermore, the budget increases by 10.6 percent to $73 million the funding for the Office of the Inspector General.

Function 700: Veterans' Benefits and Services

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	20.9	22.1	22.1	22.3	22.9	23.4	112.7
	O	19.9	22.3	22.1	22.3	22.8	23.3	112.8
Mandatory	BA	26.5	24.1	27.1	28.7	29.9	31.2	141.0
	O	26.9	24.1	27.1	28.7	29.9	32.9	142.7
Total	**BA**	**47.4**	**46.2**	**49.2**	**51.1**	**52.8**	**54.5**	**253.7**
	O	**46.8**	**46.4**	**49.1**	**51.0**	**52.7**	**56.2**	**255.4**

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

For 2001, the President's budget provides $46.2 billion for veterans' benefits and services. At first glance, this appears to represent a decrease of $1.2 billion below the 2000 level. However, the President's budget repeals a payment delay in current law that requires veterans' compensation and pension payments of $1.8 billion to be paid in 2001 instead of 2000. Without that policy change, the President's budget for Function 700 for 2001 is $48.0 billion, an increase of $2.3 billion (5.1 percent) above the 2000 level.

! ***Medical Care*** **—** Overall, the President's budget includes $20.9 billion for 2001 for veterans' medical care. This amount includes $20.3 billion in discretionary budget authority, an increase of $1.4 billion (7.0 percent) over the 2000 level. In addition, the budget assumes that the VA will receive $608 million in reimbursements from private insurance companies for treatment of veterans' non-service-connected conditions.

! ***Emergency and Long-Term Care*** **—** The increase for veterans' health care will enable the Veterans Health Administration to continue its restructuring while also providing the enhanced services called for in last year's Veterans Millennium Health Care and Benefits Act. That law mandates long-term care for highly disabled veterans or for veterans who require such treatment for service-connected conditions. In addition, the law authorizes the VA to pay for emergency care for certain groups of veterans.

- ***Repeal of Delay in Compensation Pay*** — As described above, the 2001 budget repeals the delay of the October 2000 veterans' compensation payments, which was enacted in the Balanced Budget Act of 1997. This action shifts $1.8 billion in mandatory spending from 2001 back into 2000.

- ***Compensation and Pension COLA*** — The President's budget includes a 2.5 percent cost-of-living adjustment for disability compensation and pension benefits.

- ***Medical Construction*** — The budget includes $309 million for VA medical construction. For major medical construction (i.e., projects that cost $4 million or more), the budget provides $62 million, a decrease of $3 million below the 2000 level. For other construction projects, the President sets aside $247 million, down $28 million from the 2000 level.

- ***Medical and Prosthetic Research*** — The budget includes $321 million for medical and prosthetic research for 2001, the same as last year's level.

- ***Mandatory Savings Proposals*** — The budget permanently extends savings provisions included in the Balanced Budget Act of 1997 that are set to expire at the end of 2002. Together, these provisions save $879 million over the period 2003-2005. These provisions include: (1) rounding down disability compensation cost-of-living adjustments to the next whole dollar amount (saving $99 million in 2003-2005); (2) extending authority to verify income of beneficiaries with the IRS and the Social Security Administration (saving $6 million in 2003-2005); and (3) three provisions regarding veterans' housing programs (saving $774 million in 2003-2005).

- ***Filipino Veterans*** — The budget eliminates the disparity between disability compensation benefits paid to Filipino veterans living in the United States and other veterans. Under current law, Filipino veterans receive compensation benefits equal to one-half of the amount paid to other veterans. This change increases benefits by $5 million in 2001 and by $25 million over 2001-2005.

Function 750: Administration of Justice

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	26.6	29.0	30.0	30.1	30.3	30.9	150.3
	O	25.3	29.9	29.9	30.4	30.6	31.0	151.8
Mandatory	BA	0.8	1.4	0.7	0.7	0.7	0.7	4.3
	O	1.5	1.5	0.8	0.7	0.7	0.6	4.3
Total	**BA**	**27.4**	**30.4**	**30.7**	**30.8**	**31.0**	**31.6**	**154.6**
	O	**26.8**	**31.4**	**30.7**	**31.1**	**31.3**	**31.6**	**156.0**

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

President's Clinton's budget provides $30.4 billion for the Administration of Justice function for 2001, which represents a $3.0 billion (10.9 percent) increase over the 2000 level. The budget includes significant increases for INS, Customs, and other law enforcement agencies.

- ***21st Century Policing Initiative —*** The President's 2001 budget provides $1.3 billion for the 21st Century Policing Initiative that began last year, a $422 million (48 percent) increase over the 2000 level. The funding includes $650 million for the second phase of the Community Oriented Policing Services (COPS) program. The original COPS program was established in 1994 and put 100,000 new police officers on the street between 1994 and 1999. The second phase of the COPS program, established through the 21st Century Policing Initiative and known as COPS II, will place an additional 50,000 new police officers on the street by 2005. Funding for the 21st Century Policing Initiative also includes $350 million to help states and localities improve police operations, $200 million for new community-based prosecutors, and $135 million for programs and organizations that focus on community crime prevention.

- ***National Gun Enforcement Initiative*** —The budget increases funding for the Bureau of Alcohol, Tobacco, and Firearms (ATF) as part of the Administration's National Gun Enforcement Initiative. The budget provides $756 million for ATF, an increase of $151 million (25 percent) over the 2000 level. The increased funding for ATF goes toward hiring 300 new agents, 200 new inspectors, and support staff to expand the President's Youth Crime Gun Interdiction Initiative and to investigate unlawful possessions and trafficking of firearms. The President's gun safety initiative also includes the following: (1) $150 million to place community prosecutors in areas with high levels of gun violence; (2) $15 million to investigate and prosecute firearm offenders; (3) $11 million to integrate ballistics systems; and (4) $40 million for programs that help reduce juvenile gun violence.

- ***Immigration Services —*** The budget provides $4.8 billion for the Department of Justice's Immigration and Naturalization Service (INS), a $500 million (12 percent) increase over the 2000 level. The increased INS budget includes $164 million to hire 430 new Border Patrol agents, reform the pay structure of agents and inspectors, and deploy more Integrated Surveillance Intelligence Systems (ISIS). The INS budget also includes $111 million to construct a new border patrol station and section headquarters, add new detention facilities, and improve border barriers and fencing.

- ***Law Enforcement—*** The budget provides $5.9 billion for law enforcement programs, a $481 million increase over the 2000 level. This includes $3.3 billion for the Federal Bureau of Investigation (FBI), which represents a $240 million (8 percent) increase over the 2000 level. The budget provides $1.4 billion for the Drug Enforcement Agency (DEA), a $100 million increase over the 2000 level.

- ***Civil Rights Enforcement —*** The budget provides $322 million for the Equal Employment Opportunity Commission (EEOC), a $40 million (14 percent) increase over the $282 million 2000 level. The budget provides $98 million for the Department of Justice's Civil Rights Division, a $16 million (19 percent) increase over the $82 million 2000 level. The increased funding for the Civil Rights Division aids the division's efforts to investigate and prosecute hate crimes, police misconduct, fair housing and lending cases, and violations of the Americans with Disabilities Act.

- ***State and Local Grant Reductions —*** The budget, while increasing funding for federal law enforcement programs and the 21st Century Policing Initiative, reduces overall state and local justice assistance to $3.7 billion, a $278 million net decrease below the 2000 level. The President's budget eliminates the Local Law Enforcement block grant, the state prison construction program, and the Juvenile Accountability block grant program. It reduces the Byrne Law Enforcement program to $460 million ($92 million below the 2000 level).

! *Legal Services Corporation* — The Legal Services Corporation distributes funds to non-profit organizations that offer legal assistance to people living in poverty. The President's budget includes $340 million for the Legal Services Corporation, a $36 million (12 percent) increase over the 2000 level.

! *Customs Service* — The budget provides $2.4 billion for the Customs Service, which includes direct appropriations and fee collections. This funding represents a $400 million (21 percent) increase over the 2000 level. The increase includes $25 million for an initiative to hire additional agents to investigate drug smuggling organizations. The increase also includes $20 million to replace deteriorating and obsolete aircraft equipment and install traffic avoidance assistance on aircraft. In addition, $10 million of the funding increase is for the Narcotics Illicit Proceeds Strategy Initiative, which is designed to conduct more outbound investigations to impede the flow of undeclared currency related to narcotics trafficking activities. The budget includes $210 million to modernize and upgrade the Customs Service's data processing system by replacing the Automated Commercial System (ACS) with the new Automated Commercial Environment (ACE). The budget includes a new user fee to offset this cost.

Function 800: General Government

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	12.6	14.7	14.5	14.6	14.8	15.0	73.6
	O	13.3	14.0	14.1	14.5	14.9	15.0	72.5
Mandatory	BA	1.5	1.4	1.7	1.8	1.8	1.8	8.5
	O	1.8	1.4	1.7	1.7	2.0	1.8	8.6
Total	**BA**	**14.1**	**16.1**	**16.3**	**16.4**	**16.6**	**16.8**	**82.1**
	O	**15.0**	**15.4**	**15.8**	**16.2**	**16.9**	**16.8**	**81.2**

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

! ***Legislative Branch*** — The budget includes $2.3 billion for 2001 for the Legislative Branch, which includes the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.

! ***Internal Revenue Service (IRS)*** — The budget includes $8.8 billion for the Internal Revenue Service, $800 million above the 2000 level. The budget provides $375 million in advanced appropriations for fiscal year 2002 to continue funding to improve the legacy computer system.

! ***Tax Incentive for Electronic Filing*** — The budget provides a refundable tax credit for electronic tax return filers beginning in 2002. This new initiative requires $303 million in mandatory spending in 2002 and $2.0 billion over 2002 - 2007; the associated revenue loss is $192 million in 2002 and $1.2 billion from 2002 - 2007.

! ***General Services Administration (GSA)*** — The budget includes $894 million for the GSA, $776 million above the 2000 level. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies. Over $145 million is requested for its Office of Government-wide Policy and $35 million for the Office of the Inspector General. However, over $14 billion of GSA's activities are financed by other federal agencies through its revolving funds, which provide services to agencies on a reimbursement basis. The budget includes $799 million in the Federal Buildings Fund of which $488 million is for the design and/or construction of seven courthouse projects.

! ***District of Columbia*** — The budget includes $323 million for the District of Columbia's criminal justice system and federal support for economic development and management reforms.

! ***Executive Office of the President*** — The budget provides $288 million for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The budget also includes $242 million for the Office of National Drug Control Policy, which provides Executive branch support for drug policy development and coordinates drug control programs among 50 federal agencies and departments. Only the salaries and expenses account ($45 million) is included within the budget for EXOP.

! ***Payments to States Stabilization Fund*** — The budget includes $270 million for 2001 for a new mandatory program that guarantees an annual payment to local communities for improving public schools and roads.

Function 900: Net Interest

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	O	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory	BA	220.3	208.3	198.6	189.3	177.5	163.8	937.5
	O	220.3	208.3	198.6	189.3	177.5	163.8	937.5
Total	**BA**	220.3	208.3	198.6	189.3	177.5	163.8	937.5
	O	220.3	208.3	198.6	189.3	177.5	163.8	937.5

Interest on the debt reflects the cost of financing the outstanding amount the federal government has borrowed from the public. Net interest represents interest payments to non-federal owners of Treasury securities and does not include interest paid by one part of the government to another. The Federal Reserve is treated as a non-federal entity for this purpose. If it were treated as a federal agency, net interest costs shown in the table would be $25 to $30 billion lower.

The interest cost of the publicly held debt ranks as the third largest spending item in the government's budget after Social Security and national defense. Carrying such a large interest expense means that taxes must be higher than otherwise and that other program priorities get crowded out.

! ***Interest Shrinks as a Share of GDP*** — By 2005, net interest costs decline to 1.4 percent of Gross Domestic product under the President's budget. Net interest reached an all-time high of 3.3 percent of GDP in 1991.

! ***Interest Shrinks as a Share of the Budget*** — The President's budget cuts the government's interest burden to 7.7 percent of total spending by 2005, about half of its peak 15.4 percent share in 1996. By 2013, interest payments on publicly held debt fall to zero because the entire debt is paid off.

! ***Lowering Net Interest Creates Resources for Social Security and Medicare Solvency*** — This improvement in the government's finances creates the resources needed to address the long-term fiscal challenges of Social Security and Medicare that loom just over the horizon. The President specifically earmarks the financial benefits of debt reduction to extend the solvency of these two priority programs.

Function 920: Allowances

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-1.4
	O	0.8	-1.0	-0.3	-0.3	-0.3	-0.3	-2.2
Mandatory	BA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	O	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**BA**	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-1.4
	O	0.8	-1.0	-0.3	-0.3	-0.3	-0.3	-2.2

This function includes funding for adjustments to the legislative and judicial branches' requests, purchase of the papers of Martin Luther King, Jr., and repeal of the delay in the September 2000 military and civilian pay date.

! ***Adjustments to the Legislative and Judicial Branches' Requests*** — The budget includes savings of $181 million for 2001 from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to better maintain a sprit of comity among the three branches of government.

! ***Purchase of Martin Luther King, Jr. Papers*** — The budget includes $20 million for 2001 for the Library of Congress to purchase the papers of Martin Luther King, Jr.

! ***Repeal of Delay in Military and Civilian Pay Day*** — The budget repeals the provision included in the Omnibus Consolidated Appropriations Act of 2000 that delayed pay dates for federal civilian employees who are scheduled to be paid on September 29 or September 30, 2000, to October 1, 2000. The budget restores the pay date to its original schedule, shifting approximately $0.8 billion in spending back to 2000. This provision also applies to military personnel but the shift in DOD payments is reflected in *Function 050 (Defense)*.

Function 950: Undistributed Offsetting Receipts

(in billions of dollars)

		2000	2001	2002	2003	2004	2005	01-05 Total
Discretionary	BA	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
	O	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
Mandatory	BA	-43.1	-45.4	-48.8	-47.0	-46.6	-48.3	-236.1
	O	-43.1	-45.4	-48.8	-47.0	-46.6	-48.3	-236.1
Total	**BA**	**-43.1**	**-45.6**	**-49.0**	**-47.2**	**-46.8**	**-48.5**	**-237.1**
	O	**-43.1**	**-45.6**	**-49.0**	**-47.2**	**-46.8**	**-48.5**	**-237.1**

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as "negative outlays" because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one agency of a payment made by another.

! ***Federal Employee Retirement System*** — In 2001, federal agencies will pay $38.2 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Federal agencies also make payments to the Medicare health insurance trust fund and the Social Security trust funds on behalf of their employees. As employees' pay increases, agencies are required to increase their payments to these funds.

! ***Spectrum Auctions and Fees*** — The President's budget establishes a $200 million annual fee on commercial television broadcasters. Under the terms of the spectrum "lease fee," the Federal Communications Commission (FCC) charges broadcasters for using electromagnetic spectrum for analog television broadcasts. Individual broadcasters will be exempt from the fee upon returning their existing analog channels to the FCC (and thus completing their transition from analog to digital broadcasting). The fee will be used by the Department of Justice, the Department of the Treasury, and the Bureau of Indian Affairs to offset the cost of promoting and upgrading federal, state, and local public safety wireless communications equipment and facilities. The fee would raise $1.0 billion from 2001 through 2005.